



**BUFFALO CITY METROPOLITAN MUNICIPALITY**  
**Annual Financial Statements**  
**FOR THE YEAR ENDED 30 JUNE 2013**

I am responsible for the preparation of these Annual Financial Statements which are set out herewith, in terms of Section 126(1) of the Municipal Finance Management Act (56 of 2003) and which I have signed on behalf of the Metropolitan Municipality.

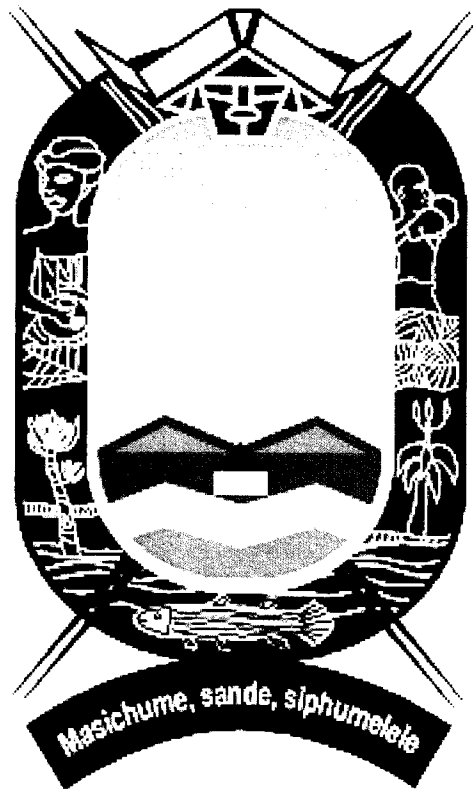
I certify that the salaries, allowances and benefits of Councillors are disclosed within these Annual Financial Statements and are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act (20 of 1998) and the Minister for Corporate Governance and Traditional Affairs determination in accordance with this act except where identified as irregular expenditure in the Annual Financial Statements.

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**Mr. A. Fani**  
**City Manager**

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**Date**



BUFFALO CITY METROPOLITAN MUNICIPALITY  
Annual Financial Statements  
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\_\_\_\_\_  
Mr. A. Fani  
City Manager

  
\_\_\_\_\_  
Date

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## General Information

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<b>Legal Form of Entity</b>	Municipality
<b>Nature of Business and Principal Activities</b>	Local Government
<b>Grading of Local Authority</b>	Grade 6 Municipality
<b>Accounting Officer</b>	Mr. A Fani
<b>Chief Financial Officer</b>	Mr. V Pillay
<b>Jurisdiction</b>	The demarcation board has determined that Buffalo City Metropolitan Municipality (BUF) includes the towns of East London, Bisho, King Williams Town, Berlin as well as the townships of Mdantsane, Gompo, Zwelitsha, Dimbaza, Phakamisa, Ndevana, Ilitha, Ginsberg and the corridor of rural areas.
<b>Business address</b>	Trust Centre Oxford Street East London 5201
<b>Postal address</b>	PO Box 134 East London 5200
<b>Bankers</b>	Absa Bank / Standard Bank
<b>Auditors</b>	Auditor General of South Africa
<b>Members of Audit Committee</b>	Mr. V Pangwa (Chairperson) Mr. S Mkebe (Member) Ms. E Kula-Ameyaw (Member)
<b>Legislation Governing the Municipality</b>	The Constitution of the Republic of South Africa, 1996 The Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) The Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004) Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007) Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998) Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005)

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Index**

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The statements and notes set out below comprise the annual financial statements:

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# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012 Restated
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	1,841,692,449	1,520,678,244
Inventories	6	71,653,231	117,116,161
Receivables from exchange transactions	7	383,984,497	312,473,204
Receivables from non-exchange transactions	8	212,232,175	146,312,963
VAT receivable	9	65,200,497	34,129,583
Current portion of operating leases	10	2,363,400	2,546,106
Current portion of long-term receivables	11	14,440	13,098
		<b>2,577,140,689</b>	<b>2,133,269,359</b>
<b>Non-Current Assets</b>			
Non-current portion of operating leases	10	61,815,348	59,027,596
Long-term receivables	11	42,913	57,353
Intangible assets	12	19,174,824	12,111,588
Investment property	13	308,191,202	320,297,778
Heritage assets	14	40,181,119	40,181,119
Property, plant and equipment	15	10,052,716,540	10,189,374,003
Non-current investment	16	892,235	856,601
Investment in associate	17	260	260
		<b>10,483,014,441</b>	<b>10,621,906,298</b>
<b>Total Assets</b>		<b>13,060,155,130</b>	<b>12,755,175,657</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Borrowings	18	49,970,261	41,533,557
Consumer deposits	19	45,519,265	36,919,893
Finance lease obligation	20	1,686,593	463,541
Provisions	21	117,411,611	113,922,161
Payables from exchange transactions	22	571,437,229	451,715,642
Unspent conditional and unconditional grants and receipts	23	450,148,613	739,538,361
		<b>1,236,173,572</b>	<b>1,384,093,155</b>
<b>Non-Current Liabilities</b>			
Borrowings	18	597,206,903	604,256,175
Finance lease obligation	20	3,941,058	990,241
Provisions	21	49,968,510	64,922,445
Post-retirement medical obligation	24	341,562,823	341,426,029
		<b>992,679,294</b>	<b>1,011,594,890</b>
<b>Total Liabilities</b>		<b>2,228,852,866</b>	<b>2,395,688,045</b>
<b>Net Assets</b>		<b>10,831,302,264</b>	<b>10,359,487,612</b>
<b>Net Assets</b>			
Reserves:			
Revaluation reserve	25	2,428,060,218	2,446,637,596
Accumulated surpluses		8,403,242,044	7,912,850,015
<b>Total Net Assets</b>		<b>10,831,302,262</b>	<b>10,359,487,612</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012 Restated
<b>Revenue</b>			
Public contributions and donations - operating projects	28	-	599,152
Public contributions and donations - PPE	28	-	730,105
Licences and permits	28	15,299,244	15,707,756
Rental of facilities and equipment	28	15,485,474	14,619,601
Fines	28	5,979,206	5,455,740
Fuel levy	28	317,781,000	170,477,000
Property rates	29	580,100,409	522,514,480
Service charges	30	1,964,268,076	1,754,709,786
Government grants & subsidies	31	1,235,137,628	907,186,380
Other revenue	32	203,317,402	138,057,912
Interest received	37	106,143,844	82,608,879
<b>Total revenue</b>	28	<b>4,443,512,283</b>	<b>3,612,666,791</b>
<b>Expenditure</b>			
Impairments	15	(71,393)	(1,798,575)
Loss on disposal of assets	15	(8,166,366)	(7,546,528)
General Expenses	33	(614,944,603)	(568,944,458)
Employee related costs	34	(980,891,329)	(956,365,528)
Remuneration of councillors	35	(43,331,310)	(42,965,666)
Debt impairment	36	(106,769,757)	(58,206,738)
Depreciation and amortisation	39	(699,347,099)	(675,687,157)
Finance costs	40	(67,258,510)	(70,491,430)
Contracted services	42	(7,763,365)	(6,839,654)
Grants and subsidies paid	43	(116,332,346)	(113,584,035)
Bulk purchases	44	(1,040,113,343)	(915,387,163)
Repairs and maintenance	64	(263,701,689)	(219,292,384)
<b>Total expenditure</b>		<b>(3,948,691,107)</b>	<b>(3,637,109,316)</b>
Fair value adjustments	13	(12,106,576)	(12,514,554)
Share of deficit of associate accounted for under the equity method	17	-	(12,087,832)
		<b>(12,106,576)</b>	<b>(24,602,386)</b>
<b>Surplus (deficit) for the year</b>	63	<b>482,714,600</b>	<b>(49,044,911)</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Statement of Changes in Net Assets

Figures in Rand

	Notes	Revaluation Reserve	Accumulated Surpluses	Total Net Assets
Opening balance as previously reported		16,047,826	11,180,532,264	11,196,580,090
Adjustments:				
Prior year adjustments	25&49	2,432,884,091	(3,205,897,095)	(773,013,004)
<b>Balance at 01 July 2011 as restated</b>		<b>2,448,931,917</b>	<b>7,974,635,169</b>	<b>10,423,567,086</b>
Changes in net assets:				
Take on of PPE at deemed cost		-	67,930	67,930
Depreciation transfer to income	25	(573,137)	573,137	-
Adjustments to the Municipal Property Asset Register - Investment properties		-	(1,313,188)	(1,313,188)
Adjustments to the Municipal Property Asset Register - Other properties	25	-	(12,068,119)	(12,068,119)
Realisation	25	(1,721,185)	-	(1,721,185)
			-	-
Surplus for the year	49	-	(49,044,914)	(49,044,914)
<b>Balance at 01 July 2012 as restated</b>	49	<b>2,446,637,596</b>	<b>7,912,850,015</b>	<b>10,359,487,611</b>
Changes in net assets:				
Depreciation transfer to income		(573,137)	573,137	-
Adjustments to Plant & Equipment	15	-	181,897	181,897
Adjustments to Furniture & Fittings	15	-	4,155,192	4,155,192
Adjustments to Office Equipment	15	-	2,513,590	2,513,590
Adjustments to Recreational Facilities	15	-	253,616	253,616
Surplus for the year	63	-	482,714,597	482,714,597
Revaluation reserve realised	25	(18,004,240)	-	(18,004,240)
<b>Balance at 30 June 2013</b>		<b>2,428,060,218</b>	<b>8,403,242,044</b>	<b>10,831,302,262</b>
Note(s)		25		

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Cash Flow Statement

Figures in Rand	Note(s)	2013	2012 Restated
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services	62	2,832,520,956	2,408,957,531
Government grants, subsidies and public contributions and donations	62	1,235,137,628	908,515,638
Interest received	37	106,143,844	82,608,879
		<u>4,173,802,428</u>	<u>3,400,082,048</u>
<b>Payments</b>			
Employee costs	34&35	(1,024,222,637)	(999,331,197)
Suppliers	62	(1,911,228,471)	(1,733,200,295)
Finance costs	40	(67,258,510)	(70,491,430)
		<u>(3,002,709,618)</u>	<u>(2,803,022,922)</u>
<b>Net cash flows from operating activities</b>	45	<u><b>1,171,092,812</b></u>	<u><b>597,059,126</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	15	(583,237,150)	(214,236,267)
Proceeds from sale of property, plant and equipment	15	18,658,335	2,610,317
Purchase of other intangible assets	12	(10,248,181)	(3,227,171)
Purchase of heritage assets	14	-	(432,579)
Net movement on financial assets	11	13,098	11,880
Net movement on non-current investments	16	(35,634)	(36,641)
<b>Net cash flows from investing activities</b>		<u><b>(574,849,532)</b></u>	<u><b>(215,310,461)</b></u>
<b>Cash flows from financing activities</b>			
Net movement on borrowings	18	1,387,432	(44,996,996)
Net movement on finance leases	20	4,173,869	(23,235)
Net movement on unspent conditional grants	23	(289,389,748)	441,524,387
Net movement on consumer deposits	19	8,599,372	3,465,560
<b>Net cash flows from financing activities</b>		<u><b>(275,229,075)</b></u>	<u><b>399,969,716</b></u>
<b>Net increase in cash and cash equivalents</b>		<b>321,014,205</b>	<b>781,718,381</b>
Cash and cash equivalents at the beginning of the year		1,520,678,244	738,959,864
<b>Cash and cash equivalents at the end of the year</b>	5	<u><b>1,841,692,449</b></u>	<u><b>1,520,678,245</b></u>



# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance - refer to note 4	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2013</b>											
<b>Financial Performance</b>											
Property rates	585,374,446	-	585,374,446	-		585,374,446	580,100,409		(5,274,037)	99 %	99 %
Service charges	1,967,956,117	-	1,967,956,117	-		1,967,956,117	1,964,268,076		(3,688,041)	100 %	100 %
Investment revenue	78,314,288	-	78,314,288	-		78,314,288	106,143,844		27,829,556	136 %	136 %
Transfers recognised - operational	804,866,030	(8,096,541)	796,769,489	-		796,769,489	719,567,238		(77,202,251)	90 %	89 %
Other own revenue	530,126,413	-	530,126,413	-		530,126,413	557,862,326		27,735,913	105 %	105 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>3,966,637,294</b>	<b>(8,096,541)</b>	<b>3,958,540,753</b>	<b>-</b>		<b>3,958,540,753</b>	<b>3,927,941,893</b>		<b>(30,598,860)</b>	<b>99 %</b>	<b>99 %</b>
Employee costs	(1,053,329,100)	(26,349,160)	(1,079,678,260)	-	-	(1,079,678,260)	(980,891,329)	-	98,786,931	91 %	93 %
Remuneration of councillors	(45,218,700)	(535,003)	(45,753,703)	-	-	(45,753,703)	(43,331,310)	-	2,422,393	95 %	96 %
Debt impairment	(215,000,000)	-	(215,000,000)			(215,000,000)	(106,769,757)	-	108,230,243	50 %	50 %
Depreciation and asset impairment	(376,527,919)	-	(376,527,919)			(376,527,919)	(699,418,492)	-	(322,890,573)	186 %	186 %
Finance charges	(89,112,465)	22,463,270	(66,649,195)	-	-	(66,649,195)	(67,258,510)	-	(609,315)	101 %	75 %
Materials and bulk purchases	(1,049,156,775)	-	(1,049,156,775)	-	-	(1,049,156,775)	(1,040,113,343)	-	9,043,432	99 %	99 %
Transfers and grants	(30,464,322)	(1,682,802)	(32,147,124)	-	-	(32,147,124)	(116,332,346)	-	(84,185,222)	362 %	382 %
Other expenditure	(1,133,412,451)	(33,340,664)	(1,166,753,115)	-	-	(1,166,753,115)	(906,682,599)	-	260,070,516	78 %	80 %
<b>Total expenditure</b>	<b>(3,992,221,732)</b>	<b>(39,444,359)</b>	<b>(4,031,666,091)</b>	<b>-</b>	<b>-</b>	<b>(4,031,666,091)</b>	<b>(3,960,797,686)</b>	<b>-</b>	<b>70,868,405</b>	<b>98 %</b>	<b>99 %</b>
<b>Surplus/(Deficit)</b>	<b>(25,584,438)</b>	<b>(47,540,900)</b>	<b>(73,125,338)</b>	<b>-</b>		<b>(73,125,338)</b>	<b>(32,855,793)</b>		<b>40,269,545</b>	<b>45 %</b>	<b>128 %</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting funds s31 of MFMA)	of Virement (i.t.o. council the approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	629,018,248	205,049,909	834,068,157	-		834,068,157	515,570,390		(318,497,767)	62 %	82 %
Contributions recognised - capital and contributed assets	-	2,450,976	2,450,976	-		2,450,976	-		(2,450,976)	-	-
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>603,433,810</b>	<b>159,959,985</b>	<b>763,393,795</b>	<b>-</b>		<b>763,393,795</b>	<b>482,714,597</b>		<b>(280,679,198)</b>	<b>63 %</b>	<b>80 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>603,433,810</b>	<b>159,959,985</b>	<b>763,393,795</b>	<b>-</b>		<b>763,393,795</b>	<b>482,714,597</b>		<b>(280,679,198)</b>	<b>63 %</b>	<b>80 %</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	749,097,271	229,006,218	978,103,489	-		978,103,489	593,485,329		(384,618,160)	61 %	79 %
<b>Sources of capital funds</b>											
Transfers recognised - capital	609,847,828	224,220,329	834,068,157	-		834,068,157	515,570,387		(318,497,770)	62 %	85 %
Public contributions and donations	19,170,420	(16,719,444)	2,450,976	-		2,450,976	-		(2,450,976)	-	-
Borrowing	-	-	-	-		-	18,146,281		18,146,281	-	-
Internally generated funds	120,079,023	21,505,333	141,584,356	-		141,584,356	59,768,661		(81,815,695)	42 %	50 %
<b>Total sources of capital funds</b>	<b>749,097,271</b>	<b>229,006,218</b>	<b>978,103,489</b>	<b>-</b>		<b>978,103,489</b>	<b>593,485,329</b>		<b>(384,618,160)</b>	<b>61 %</b>	<b>79 %</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 s31 of the MFMA)	Final adjustments and budget	Shifting funds s31 of MFMA)	of Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	942,998,729	161,315,088	1,104,313,817	-		1,104,313,817	1,171,092,812		66,778,995	106 %	124 %
Net cash from (used) investing	(749,097,271)	(229,006,218)	(978,103,489)	-		(978,103,489)	(574,849,532)		403,253,957	59 %	77 %
Net cash from (used) financing	(41,532,778)	(2,448,186)	(43,980,964)	-		(43,980,964)	(275,229,075)		(231,248,111)	626 %	663 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>152,368,680</b>	<b>(70,139,316)</b>	<b>82,229,364</b>	-		<b>82,229,364</b>	<b>321,014,205</b>		<b>238,784,841</b>	<b>390 %</b>	<b>211 %</b>
Cash and cash equivalents at the beginning of the year	696,148,584	-	696,148,584	-		696,148,584	1,520,678,244		824,529,660	218 %	218 %
<b>Cash and cash equivalents at year end</b>	<b>848,517,264</b>	<b>(70,139,316)</b>	<b>778,377,948</b>	-		<b>778,377,948</b>	<b>1,841,692,449</b>		<b>(1,063,314,501)</b>	<b>237 %</b>	<b>217 %</b>

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy

#### **1.1 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgments is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### **Trade receivables, investments and/or loans and receivables**

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

##### **Allowance for slow moving, damaged and obsolete stock**

An allowance has been made to write down stock to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the notes to the financial statements per inventory note 6.

##### **Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

##### **Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors i.e. production estimates, supply demand, together with economic factors such as exchange rates, inflation, interest.

##### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 21 - Provisions.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.1 Significant judgements and sources of estimation uncertainty (continued)**

#### **Useful lives of waste and water network and other assets**

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### **Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the medical aid obligation in determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related medical aid obligation liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 24.

#### **Effective interest rate**

The municipality used the prime interest rate to discount future cash flows.

#### **Allowance for doubtful debts**

Impairment loss is recognised in surplus and deficit when there is objective evidence that debtors are impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### **1.2 Investment property**

Investment property is property (land or a building - or part of a building - or both - or under construction) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property excludes owner-occupied property.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.2 Investment property (continued)**

#### **Fair value**

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- (d) commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.

### **1.3 Property, plant and equipment**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality;
- and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land, buildings, other properties, community properties and roads which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value except for furniture and fittings, which are depreciated using the diminishing balance method at 10% per annum.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life (years)
Land - landfill sites	50
Buildings	30
Plant and machinery	3 to 30
Motor vehicles	4 to 15
Office equipment	3 to 5
Electricity	10 to 60
Community	
▶ Buildings	30
▶ Recreation	20 to 30
Other properties	5 to 50
Finance Leased Assets	5
Roads	5 to 100
Wastewater network	5 to 80
Water network	5 to 150

# BUFFALO CITY METROPOLITAN MUNICIPALITY

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## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

Heritage Assets

Indefinite

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of municipality are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised and will be classified as revenue. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the municipality.

### 1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to, changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - > a decrease in the liability is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit;
  - > an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets. If a revaluation is necessary, all assets of that class are revalued.



# BUFFALO CITY METROPOLITAN MUNICIPALITY

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## Accounting Policies

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### 1.5 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- ▶ it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- ▶ the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- ▶ it is technically feasible to complete the asset so that it will be available for use or sale.
- ▶ there is an intention to complete and use or sell it.
- ▶ there is an ability to use or sell it.
- ▶ it will generate probable future economic benefits or service potential.
- ▶ there are available technical, financial and other resources to complete the development and to use or sell the asset.
- ▶ the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

### 1.6 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.6 Heritage assets (continued)**

A class of heritage assets means a grouping of heritage assets of a similar nature or function in a municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

If an municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

#### **Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### **Subsequent measurement**

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

#### **Impairment**

The municipality assess at each reporting date whether there is an indication that a heritage asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### **Transfers**

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### **Derecognition**

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.7 Related Parties**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Transactions between related parties other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances are disclosed within the annual financial statements.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### **1.8 Investment in associate**

An associate is an entity over which the municipality is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investment.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

The carrying value of the investment in associates is adjusted for the municipality's share of operating surpluses/ (deficits) less any dividends received.

Where the municipality or its entities transact with an associate, unrealised gains and losses are eliminated to the extent of the municipality's or its municipal entities' interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Where the municipality is no longer able to exercise significant influence over the associate, the equity method of accounting is discontinued.

The municipality uses the most recent available financial statements of the associate in applying the equity method. When the reporting dates are different, the municipality makes adjustments for the effects of any significant events or transactions between the investor and the associate that occur between the different reporting dates. Adjustments are made to ensure consistency between the accounting policies of the associate and the municipality.

### **1.9 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.9 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest in another entity; or
- a contractual right to:
  - > receive cash or another financial asset from another entity; or
  - > exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.9 Financial instruments (continued)

- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are combined instruments that are designated at fair value and/or instruments held for trading.

A financial instrument is held for trading if:

- > it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
- > on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; and
- > financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position and in note 26 :

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Trade and other receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Long-term receivables	Financial asset measured at amortised cost
Non-current investments	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in note 27 :

Class	Category
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Accrued leave pay	Financial liability measured at amortised cost
BCMET	Financial liability measured at amortised cost
Payments received in advance	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at fair value
Other deposits	Financial liability measured at fair value

### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.9 Financial instruments (continued)**

#### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### **Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### **Reclassification**

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- a combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### **Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### **Impairment and uncollectibility of financial assets**

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.9 Financial instruments (continued)**

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

#### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset, and the net amount presented in the statement of financial position, when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### **1.10 Leases**

A lease is either a written or implied contract by which an owner (the lessor) of a specific asset grants a second party (the lessee) the right to its exclusive possession and use for a specific period and under specific conditions, in return for specific periodic rental or lease payments.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease or the incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate reduction on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.10 Leases (continued)

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.11 Inventories

Inventories are initially measured at cost, except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- ▶ distribution at no charge or for a nominal charge; or
- ▶ consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation/amortisation.

The carrying amount is the amount at which an asset is recognised in the statement of financial position, after deducting any accumulated depreciation and accumulated impairment losses thereon.



# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.12 Impairment of cash-generating assets (continued)**

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation and/or amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

The useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

#### **Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses, at each reporting date, whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

#### **Value in use**

The value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset, and from its ultimate disposal, and the municipality applies the appropriate discount rate to those future cash flows.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.12 Impairment of cash-generating assets (continued)**

#### **Cash-generating units**

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- ▶ the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- ▶ the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- ▶ its fair value less costs to sell (if determinable);
- ▶ its value in use (if determinable); and
- ▶ zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.12 Impairment of cash-generating assets (continued)**

#### **Reversal of impairment loss**

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- ▶ its recoverable amount (if determinable); and
- ▶ the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### **1.13 Impairment of non-cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation/amortisation.

The carrying amount is the amount at which an asset is recognised in the statement of financial position, after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation and/or amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

The useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.13 Impairment of non-cash-generating assets (continued)**

- the number of production or similar units expected to be obtained from the asset by the municipality.

At each reporting date a review is carried out to determine whether there are any indications that any assets and non-cash-generating units may be impaired. If such indications exist, the recoverable amounts of the affected assets are determined.

Where the recoverable amount of an asset or non-cash-generating unit is lower than its carrying amount, an impairment loss is recognised in surplus or deficit in respect of assets at historic cost, and recognised in the revaluation reserve in respect of assets at revalued amounts.

#### **Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

#### **Value in use**

The value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of the non-cash-generating assets is determined using the following approach:

#### **Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### **Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation/amortisation charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.13 Impairment of non-cash-generating assets (continued)**

#### **Reversal of an impairment loss**

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation/amortisation charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### **Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occurs when there is clear evidence that such a redesignation is appropriate.

### **1.14 Employee benefits**

Employee benefits are all forms of consideration given by a municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- a municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits.

A constructive obligation is an obligation that derives from a municipality's actions whereby an established pattern of past practice, published policies or a sufficiently specific current statement whereby the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.14 Employee benefits (continued)**

#### **Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### **Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which a municipality provides post-employment benefits for one or more employees.

#### **Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which a municipality pays fixed contributions into a separate municipal fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise of expense adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by a municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement.

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.14 Employee benefits (continued)

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); or until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. Within surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.



# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.15 Provisions and contingencies (continued)**

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - > the activity/operating unit or part of an activity/operating unit concerned;
  - > the principal locations affected;
  - > the location, function, and approximate number of employees who will be compensated for services being terminated;
  - > the expenditures that will be undertaken; and
  - > when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingencies are disclosed in note 47 and note 61.

### **1.16 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.16 Revenue from exchange transactions (continued)

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.17 Revenue from non-exchange transactions (continued)**

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Taxes such as property rates are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### **Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### **Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### **Taxes**

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

#### **Transfers**

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### **Debt forgiveness and assumption of liabilities**

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

#### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.17 Revenue from non-exchange transactions (continued)**

#### **Bequests**

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

#### **Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### **1.18 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

### **1.19 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- ▶ Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- ▶ Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- ▶ expenditures for the asset have been incurred;
- ▶ borrowing costs have been incurred; and
- ▶ activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.12 and 1.13. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.20 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### **1.21 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.22 Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.23 Irregular expenditure**

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.24 Use of estimates**

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### **1.25 Offsetting**

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### **1.26 Revaluation reserve**

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.27 Investments**

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

### **1.28 Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### **1.29 Budget information**

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

Comparative information is not required.

Differences between budget and actual amounts are regarded as material differences when a 10% difference exists. All material differences are explained in note 4 to the annual financial statements.

### **1.30 Value added tax (VAT)**

The municipality accounts for value added tax on the payment basis. Revenue, expenses and assets are recognised net of the amount of VAT. The net amount of VAT recoverable from or payable to, the taxation authority is disclosed on the face of the statement of financial position. Refer to note 9.

### **1.31 Commitments**

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed as a note in the annual financial statements differentiating between community, infrastructure and other capital expenditure commitments. Refer to note 46.

# **BUFFALO CITY METROPOLITAN MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **Notes to the Annual Financial Statements**

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### **2. Changes in accounting policy**

The annual financial statements have been prepared in accordance with the South African Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the following new standards as issued by the Accounting Standard Board:

- GRAP 23 Revenue from non-exchange transactions.
- GRAP 24 Presentation of budget information in the financial statement
- GRAP 21 Impairment of non-exchange transactions
- GRAP 26 Impairment of exchange transactions
- GRAP 103 Heritage assets
- GRAP 104 Financial instruments



# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 2. Changes in accounting policy (continued)

#### Change in accounting policy and review of asset classification in line with the revised Immovable Asset Management Policy

During the year, the Municipality changed its accounting policy in respect of the subsequent measurement of Roads, Community properties, Other properties and Land from the cost model to the revaluation model. The Municipality is of the opinion that the new subsequent measurement for these asset sub categories will result in fairer presentation of the financial position and operating results. Within the revaluation process there were multiple reclassifications between the various sub-categories in order to accurately revalue and classify the assets. In addition, the Municipality also adopted GRAP 103 (Heritage Assets) which necessitated the reclassification of certain items of PPE to Heritage Assets in accordance with the GRAP 103. The change in accounting policy has been accounted for retrospectively and the comparative amounts have been restated, the revaluation was performed as at 1 July 2012. The effect of this change in accounting policy is as follows:

Statement of Financial Performance	Roads	Community	Land	Investment property	Heritage assets	Total
Buildings	26,447	13,525,465	59,000	-	1,291,920	14,902,832
Other properties	-	(22,576,453)	-	-	-	(22,576,453)
Recreational facilities	-	(9,672,026)	-	-	33,280	(9,638,746)
Roads	(179,328,411)	-	-	-	-	(179,328,411)
Community buildings	45,600	(28,119,160)	15,312	-	243,413	(27,814,835)
(Increase) / Decrease in depreciation	(179,256,364)	(46,842,174)	74,312	-	1,568,613	(224,455,613)
(Increase) / Decrease in revaluation deficit	-	-	(1,212,982,040)	-	-	-
Increase / (Decrease) in profit on sale of assets	(2,389,719)	(5,701,032)	309,348	-	-	(7,781,403)
Increase / (Decrease) in revaluation reserve on disposal / impairment	1,721,185	942,683	-	-	-	2,663,868
<b>Increase / (Decrease) in profit for the year</b>	<b>(179,924,898)</b>	<b>(51,600,523)</b>	<b>(1,212,598,380)</b>	<b>-</b>	<b>1,568,613</b>	<b>(229,573,148)</b>

Statement of Financial Position	Roads	Community	Land	Investment property	Heritage assets	Total
Land	220,275,327	148,524,803	1,206,918,330	-	18,341,383	1,594,059,843
Buildings	714,060	371,366,684	1,593,000	-	34,881,840	408,555,584
Other properties	-	(260,898,977)	-	-	-	(260,898,977)
Work in progress	(15,537,544)	(52,670,071)	(442,882)	-	-	(68,650,497)
Recreational facilities	-	(111,222,067)	-	-	898,560	(110,323,507)
Roads	(2,237,912,094)	-	-	-	-	(2,237,912,094)
Community buildings	1,231,200	(298,417,103)	429,746	-	6,572,160	(290,183,997)
(Increase) / Decrease in PPE	(2,031,229,051)	(203,316,731)	1,208,498,194	-	60,693,943	(965,353,645)
(Increase) / Decrease in investment properties	3,322,921	71,333,916	4,100,186	-	249,600	79,006,623
(Increase) / Decrease in heritage assets	-	-	-	-	(36,327,783)	(36,327,783)

Statement of Changes in Net Assets	Roads	Community	Land	Investment property	Heritage assets	Total
Increase / (Decrease) in accumulated surplus / deficit	-	-	-	-	(26,184,374)	(26,184,374)
Increase / (Decrease) in revaluation reserve	2,207,831,028	183,583,339	-	-	-	2,391,414,367

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

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### 3. New standards and interpretations

#### 3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
▶ GRAP 23: Revenue from Non-exchange Transactions	01 July 2012	The major impact will be the accounting treatment of conditional grants and fines.
▶ GRAP 24: Presentation of Budget Information in the Financial Statements	01 July 2012	Major change in presenting the Budget information compared to actuals in the Financial Statements.
▶ GRAP 103: Heritage Assets	01 July 2012	This standard requires a more detailed approach to identifying and presenting the heritage assets in the Annual Financial Statements.
▶ GRAP 21: Impairment of non-cash-generating assets	01 July 2012	No major impact as the municipality has already accepted a policy based on GRAP 21.
▶ GRAP 26: Impairment of cash-generating assets	01 July 2012	No major impact as the municipality has already accepted a policy based on GRAP 26.
▶ GRAP 104: Financial Instruments	01 July 2012	No major impact as the municipality has already accepted a policy based on GRAP 104.

#### 3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
▶ GRAP 25: Employee benefits	01 July 2013	No major impact expected
▶ GRAP 20: Related parties	01 July 2013	No major impact expected
▶ IGRAP 11: Consolidation – Special purpose entities	01 July 2014	No major impact expected
▶ IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 July 2014	No major impact expected
▶ GRAP 1 (as revised 2012): Presentation of Financial Statements	01 July 2013	No major impact expected
▶ GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 July 2013	No major impact expected
▶ GRAP 7 (as revised 2012): Investments in Associates	01 July 2013	No major impact expected
▶ GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 July 2013	No major impact expected
▶ GRAP 12 (as revised 2012): Inventories	01 July 2013	No major impact expected
▶ GRAP 13 (as revised 2012): Leases	01 July 2013	No major impact expected
▶ GRAP 16 (as revised 2012): Investment Property	01 July 2013	No major impact expected
▶ GRAP 17 (as revised 2012): Property, Plant and Equipment	01 July 2013	No major impact expected

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

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### 3. New standards and interpretations (continued)

▶ GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 July 2013	No major impact expected
▶ GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 July 2013	No major impact expected
▶ IGRAP16: Intangible assets website costs	01 July 2013	No major impact expected
▶ IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	01 July 2013	No major impact expected

### 3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
▶ GRAP 18: Segment Reporting	01 July 2013	Not applicable
▶ GRAP 105: Transfers of functions between entities under common control	01 July 2013	Not applicable
▶ GRAP 106: Transfers of functions between entities not under common control	01 July 2013	Not applicable
▶ GRAP 107: Mergers	01 July 2013	Not applicable

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

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### 4. Explanation of significant variances on budget comparison to actuals

Reasons for material variances shown on the **Statement of Comparison of Budget and Actual Amounts** are detailed below:

#### **REVENUE**

##### Investment revenue

The institution budgeted to incur expenditure from conditional grant funding from an earlier point in the financial year. This did not occur resulting in conditional grant funding being available for investment resulting in additional unbudgeted interest income.

#### **EXPENDITURE**

##### Debt impairment

The debt impairment figure is calculated using the approved methodology on the debt book as at 30 June 2013. This figure allows the municipality to make a realistic provision taking into account the ageing of the outstanding debtors at year end. The budget for debt impairment is based on the 12 months average collection rate. The debtors provision methodology was amended in order to obtain a more realistic figure.

##### Depreciation & asset impairment

The asset register is currently being revised for certain infrastructure asset categories which has led to an increase in the cost of these assets and the resulting depreciation on them, which was not budgeted for. This is also due to a large amount of infrastructure projects that were still under construction (WIP) when the budgeted figures were calculated. This resulted in depreciation being charged when these assets were capitalised which was not budgeted for. In addition, the budgeted figures are also based on the capital budget, which is still budgeted for on a global basis and not componentised per asset category. This results in the budgeted figures differing from actuals due to different useful lives used for budgeting purposes and actual asset capitalisation i.e. specific useful lives are assigned to asset categories once these assets are capitalised.

##### Transfers and grants

This variance arose as a result of less payments being made for grant-in-aid that was originally predicted. Furthermore, a grant was budgeted for iro the Buffalo City Development Agency as it was expected that this entity would be operational, however this did not materialise. Poor relief was also expensed against transfers and grants whereas the amount was budgeted under general expenses.

##### Other expenditure

This is due to under spending on operating projects and contracted services. The allocated budget for Enterprise Project Management Office was intended for staffing of the EPMD however the recruitment of staff took longer than expected resulting in the slow utilisation of the budget. For contracted services - this is due to BCMM adopting an in-house approach to perform the refuse removal service. This service was expected to be outsourced when preparing the budget.

##### Transfers recognised - Capital

This is due to underspending on conditional grant funded projects.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

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### 4. Explanation of significant variances on budget comparison to actuals (continued)

#### **CAPITAL EXPENDITURE AND FUNDS SOURCES**

##### Total capital expenditure

Although the capital expenditure budget reflects an unspent amount of R384 618 160, a large portion of this can be attributed to litigation including two substantial projects. National Treasury has approved that a grant amount of R173 071 548 in respect of this underspent amount can be retained for use in the 2013/14 financial year.

#### **CASH FLOWS**

##### Net cash from (used) investing

This is due to under spending on capital projects as purchase of Property Plant and Equipment is less than what has been projected.

##### Net cash from (used) financing

This is due to the increase in the utilisation of grant funding.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>5. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	72,639	68,640
Bank balances	144,322,157	56,398,529
Short-term deposits	1,697,297,653	1,464,211,075
	<b>1,841,692,449</b>	<b>1,520,678,244</b>
Current assets	1,841,692,449	1,520,678,244
	<b>1,841,692,449</b>	<b>1,520,678,244</b>
<b>Allocation of external investments (short-term deposits)</b>		
Unspent conditional and unconditional grants and receipts	450,148,613	787,665,935
Housing collateral for employees housing loans with lending institutions	231,150	271,950
Borrowing current repayments	25,528,353	24,224,397
Cash flow committed to operating and capital budgets	81,627,983	111,897,042
BCMET	1,645,346	1,798,913
Own funding (operating account commitments)	1,138,116,208	538,352,838
<b>Total short-term deposits</b>	<b>1,697,297,653</b>	<b>1,464,211,075</b>
<b>Short-term deposits per institution</b>		
ABSA ( interest range: 2013 4.5%-5% : 2012 5%-5.86%)	424,335,564	374,200,819
Nedbank (interest range: 2013 4.5%-5%: 2012 5%)	424,309,733	362,621,306
RMB (interest range: 2013 4.5%-5%: 2012 5% - 5.8%)	422,974,683	362,957,317
Standard bank (interest range: 2013 4.5%-5%: 2012 5% - 5.88%)	246,880,571	177,642,582
Stanlib (interest range: 2013 5.23%-5.7%: 2012 5.56% - 5.67%)	178,797,102	186,789,051
	<b>1,697,297,653</b>	<b>1,464,211,075</b>

Own funding includes the insurance and Compensation for Occupational Injuries and Diseases (COID) purposes.

No cash and cash equivalents (or portions thereof) was pledged as security for any financial liabilities.

No restrictions exist with regard to the use of cash.

No portion is past due or impaired.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

A cession by the Municipality in respect of the Department of Labour for COID amounts to R7 539 288 (2012: R6 997 418).

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

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### 5. Cash and cash equivalents (continued)

The municipality had the following bank accounts:

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
STANDARD BANK - Primary Account - 081-221-495	-	117,205,269	105,075,417	-	48,486,521	35,563,034
STANDARD BANK - Market Account - 081-246-072	-	1,230,770	1,875,348	-	1,218,902	409,473
STANDARD BANK - Inter Authority Account - 081-246-250	-	1,476,139	1,477,381	-	1,476,138	1,477,381
STANDARD BANK - Prism Account - 081-246-048	-	-	-	-	5,105,086	5,583,785
STANDARD BANK - BCMET Account - 081-098-359	-	111,882	7,304	-	111,882	7,304
ABSA BANK - Primary Account - 408-009-0281	148,477,033	-	-	138,627,064	-	-
ABSA BANK - Prism Account - 408-009-0574	-	-	-	2,930,618	-	-
ABSA BANK - Market Account - 408-009-0639	2,465,727	-	-	2,764,475	-	-
ABSA BANK - Unpaid Account - 408-009-0697	53,575	-	-	-	-	-
<b>Total</b>	<b>150,996,335</b>	<b>120,024,060</b>	<b>108,435,450</b>	<b>144,322,157</b>	<b>56,398,529</b>	<b>43,040,977</b>

### Cash book balances

Bank balances				144,322,157	56,398,529
<b>Prior period error</b>	49				
Balance previously reported				-	54,115,446
Outstanding cheques recognised as market creditors	22			-	685,208
Reversing market cash on hand				-	1,597,875
<b>Restated</b>				-	<b>56,398,529</b>

As from 1 February 2013 BCMM changed the Council's bank accounts from Standard Bank to ABSA Bank.

The net cash book balance has been restated by R2 283 083 in the prior year to correctly disclose this balance which was incorrectly allocated (as per abovementioned details) in the prior year.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>6. Inventories</b>		
Electricity store (Electrical maintenance parts)	8,461,153	14,067,505
Workshop store (Mechanical maintenance parts)	302,265	366,322
General stores (Chiselhurst, Mdantsane, KWT)	29,838,932	31,634,062
Water store (Water maintenance parts)	20,913,219	25,403,125
Fuel (Diesel, Petrol)	2,147,473	1,651,100
Unsold water (Treated water in pipelines & reservoirs)	2,755,898	2,297,627
Housing stock (RDP Houses)	12,288,185	41,823,101
	<b>76,707,125</b>	<b>117,242,842</b>
Inventories (write-downs)	(5,053,894)	(126,681)
	<b>71,653,231</b>	<b>117,116,161</b>

Carrying value of stock is disclosed at the lower of cost and net realisable value.

Certain houses constructed pre 1994 under the old Ciskei Municipality have not been legally transferred to the beneficiaries occupying the houses. These properties are not categorised as RDP inventory because the properties are occupied by rightful beneficiaries. The Municipality has taken the initiative to collect all information and data to enable the transfer of these properties.

The inventories (write-downs) amount is in respect of obsolete stock and not due to a change in accounting policy.

### Inventory pledged as security

No inventory was pledged as security.

## 7. Receivables from exchange transactions

### Gross balances

Electricity	179,922,270	164,575,388
Water	272,677,143	233,338,178
Sewerage	138,386,707	116,942,793
Refuse	166,289,611	139,417,302
Housing rental	2,655,609	2,126,090
	<b>759,931,340</b>	<b>656,399,751</b>

### Less: Allowance for debt impairment

Electricity	(34,095,753)	(31,203,958)
Water	(153,995,448)	(139,785,764)
Sewerage	(82,214,605)	(76,331,740)
Refuse	(103,895,569)	(95,065,173)
Housing rental	(1,745,468)	(1,539,912)
	<b>(375,946,843)</b>	<b>(343,926,547)</b>

### Net balance

Electricity	145,826,517	133,371,430
Water	118,681,695	93,552,414
Sewerage	56,172,102	40,611,053
Refuse	62,394,042	44,352,129
Housing rental	910,141	586,178
	<b>383,984,497</b>	<b>312,473,204</b>



# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>7. Receivables from exchange transactions (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	129,634,898	119,976,018
31 - 60 days	9,131,346	6,546,082
61 - 90 days	3,993,865	3,282,855
91 - 120 days	2,713,203	3,028,520
121 - 365 days	12,719,750	14,316,844
> 365 days	21,729,208	17,425,069
	<b>179,922,270</b>	<b>164,575,388</b>
<b>Water</b>		
Current (0 -30 days)	45,569,128	43,303,486
31 - 60 days	15,485,030	14,223,543
61 - 90 days	11,522,850	12,229,566
91 - 120 days	12,358,324	8,020,442
121 - 365 days	59,571,476	45,149,001
> 365 days	128,170,335	110,412,140
	<b>272,677,143</b>	<b>233,338,178</b>
<b>Sewerage</b>		
Current (0 -30 days)	17,156,112	15,639,625
31 - 60 days	7,540,485	7,041,355
61 - 90 days	6,357,435	6,554,367
91 - 120 days	6,908,407	4,038,096
121 - 365 days	28,903,566	21,985,759
> 365 days	71,520,702	61,683,591
	<b>138,386,707</b>	<b>116,942,793</b>
<b>Refuse</b>		
Current (0 -30 days)	13,088,301	13,252,182
31 - 60 days	7,091,785	7,373,244
61 - 90 days	6,214,883	7,029,977
91 - 120 days	7,053,807	4,735,207
121 - 365 days	36,527,159	25,137,766
> 365 days	96,313,676	81,888,926
	<b>166,289,611</b>	<b>139,417,302</b>
<b>Housing rental</b>		
Current (0 -30 days)	81,822	82,406
31 - 60 days	80,632	81,462
61 - 90 days	90,733	89,523
91 - 120 days	92,672	61,849
121 - 365 days	572,538	400,988
> 365 days	1,737,212	1,409,862
	<b>2,655,609</b>	<b>2,126,090</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

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### 7. Receivables from exchange transactions (continued)

#### Summary of debtors by customer classification:

(This refers to the total debtor classification including exchange and non- exchange transactions as per the billing system i.e. this includes rates and other billing receivables)

#### Domestic Debtors (including rates & other receivables (billing))

Current (0 -30 days)	104,165,166	115,536,686
31 - 60 days	41,452,212	38,592,466
61 - 90 days	34,503,781	35,646,055
91 - 120 days	36,915,306	23,360,860
121 - 365 days	180,385,821	137,345,258
> 365 days	448,282,560	381,306,256
	845,704,846	731,787,581
Less: Allowance for debt impairment	(517,679,422)	(474,617,731)
	<b>328,025,424</b>	<b>257,169,850</b>

#### Industrial/ commercial (including rates and other receivables (billing))

Current (0 -30 days)	138,520,545	114,915,186
31 - 60 days	13,182,174	11,131,834
61 - 90 days	6,679,649	6,206,593
91 - 120 days	4,634,651	4,931,523
121 - 365 days	23,193,900	25,840,401
> 365 days	40,440,547	40,547,113
	226,651,466	203,572,650
Less: Allowance for debt impairment	(47,436,659)	(54,278,387)
	<b>179,214,807</b>	<b>149,294,263</b>

#### National and provincial government (including rates and other receivables (billing))

Current (0 -30 days)	12,871,484	12,511,991
31 - 60 days	1,317,899	1,089,261
61 - 90 days	197,480	193,753
91 - 120 days	135,216	601,906
121 - 365 days	1,117,195	1,621,884
> 365 days	909,032	1,212,030
	<b>16,548,306</b>	<b>17,230,825</b>

#### Total Debtors (including rates & other receivables (billing))

Current (0 -30 days)	255,557,195	242,963,863
31 - 60 days	55,952,284	50,813,561
61 - 90 days	41,380,910	42,046,401
91 - 120 days	41,685,173	28,894,289
121 - 365 days	204,696,916	164,807,543
> 365 days	489,632,140	423,065,399
	1,088,904,618	952,591,056
Less: Allowance for debt impairment	(565,116,082)	(528,896,119)
	<b>523,788,536</b>	<b>423,694,937</b>

#### Ageing of allowance for debt impairment (including rates & other receivables (billing))

Current (0 -30 days)	(270,122)	(252,809)
31 - 60 days	(40,446,357)	(37,854,030)
61 - 90 days	(33,467,910)	(31,322,854)
91 - 120 days	(22,999,150)	(21,525,067)
121 - 365 days	(131,182,790)	(122,774,896)
> 365 days	(336,749,752)	(315,166,463)
	<b>(565,116,081)</b>	<b>(528,896,119)</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 7. Receivables from exchange transactions (continued)

#### Consumer debtors pledged as security

No portion of accounts receivable was pledged as security for any financial liabilities.

No security is held for any of the accounts receivable.

#### Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. Although credit quality can be assessed the municipality did not apply any methods to evaluate the credit quality.

#### Consumer debtors impaired

As at 30 June 2013, consumer debtors of R 375,946,843 (2012: R 343,926,547) were impaired and provided for.

Amounts totaling R 61,842,336 (2012: R 50,331,640 ) were written off as uncollectable against the debt impairment allowance account. This represents 0.014 % (2012: 0.014 %) of the total operating income for the year.

#### Reconciliation of allowance for impairment of consumer debtors

Opening balance	(343,926,548)	(353,060,407)
Contributions during the year	(93,838,491)	(41,197,781)
Amounts written off as uncollectable	61,842,336	50,331,640
	<b>(375,922,703)</b>	<b>(343,926,548)</b>

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 36). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Refer to note 8 regarding impairment of non-exchange transactions.

In terms of the arrangements to repay rates and services debt as at 30 June 2013, 5 048 debtors had active outstanding arrangements to the value of value of R17 710 816. The repayment periods range from 1 month to a maximum of 24 months in terms of the Credit Control Policy.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>8. Receivables from non-exchange transactions</b>		
Property rates	218,657,712	193,151,975
Other receivables (billing)	110,315,565	95,745,443
Accrued income	59,875,676	37,230,007
Other debtors	12,552,461	5,155,110
Impairment property rates	(189,169,239)	(184,969,572)
	<b>212,232,175</b>	<b>146,312,963</b>
<b>Property rates age analysis</b>		
Current (0-30days)	40,707,209	38,550,126
31-60 days	13,132,137	11,733,179
61-90 days	10,068,020	9,814,389
91-120 days	9,102,428	6,708,721
121-365 days	41,922,724	39,993,394
> 365 days	103,725,193	86,352,167
	<b>218,657,711</b>	<b>193,151,976</b>
<b>Other receivables (billing)</b>		
Current (0-30days)	9,319,725	12,160,024
31-60 days	3,490,869	3,814,694
61-90 days	3,133,125	3,045,724
91-120 days	3,456,332	2,301,454
121-365 days	24,479,702	17,823,791
> 365 days	66,435,813	56,599,756
	<b>110,315,566</b>	<b>95,745,443</b>
<b>Prior period errors - Other receivables (billing)</b>	49	
Previously reported		- 100,026,228
Adjusted		- (4,280,785)
<b>Restated</b>		<b>- 95,745,443</b>
<b>Prior period errors - Property rates</b>	49	
Previously reported		- 196,165,077
Adjusted		- (3,013,101)
<b>Restated</b>		<b>- 193,151,976</b>
<b>Summary of prior period errors</b>		
Previously reported	49	- 153,606,850
Adjusted for Other receivables (billing)		- (4,280,786)
Adjusted for Property rates		- (3,013,101)
<b>Restated</b>		<b>- 146,312,963</b>

### Trade and other receivables pledged as security

No portion of accounts receivable was pledged as security for any financial liabilities.

No security is held for any accounts receivable.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

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### 8. Receivables from non-exchange transactions (continued)

#### Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings.

Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

#### Trade and other receivables impaired

As at 30 June 2013, trade and other receivables from non-exchange transactions of R 189,193,380 (2012: R 184,969,572) were impaired and provided for.

Amounts totaling R8,731,599 (2012: R10,932,684 ) were written off as uncollectable against the debt impairment allowance account. This represents 0.002 % (2012: 0.003 %) of the total operating income for the year.

#### Reconciliation of allowance for impairment of non-exchange transactions

Opening balance	(184,969,572)	(178,869,015)
Contributed during the year	(12,931,266)	(17,033,241)
Amounts written off as uncollectable	8,731,599	10,932,684
Other income	(24,141)	-
	<b>(189,193,380)</b>	<b>(184,969,572)</b>

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 36). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

### 9. VAT receivable

VAT	65,200,497	34,129,583
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VAT is payable on the receipt basis. VAT is only declared to SARS on receipt of payment from consumers.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>10. Operating leases averaged over total period</b>		
Operating lease rentals	64,178,748	61,573,702
<b>Operating lease rentals</b>		
Current assets	2,363,400	2,546,106
Non-current assets	61,815,348	59,027,596
	<b>64,178,748</b>	<b>61,573,702</b>
<b>Municipality as lessor: Operating leases minimum future receivables</b>		
No later than one year	2,235,772	1,636,966
Later than one year no later than 5 years	7,499,728	7,009,992
Later than 5 years	157,969,982	159,816,056
	<b>167,705,482</b>	<b>168,463,014</b>

These leases are in respect of municipal properties that are leased to third parties. These leases are payable by lessees, either monthly or annually. Leases payable monthly and annually by lessees escalate at annual fixed rates that vary between 0% and 12.5% annually.

No contingent rent was recognised as revenue because rental increases are escalated at a fixed percentage. Increases are not based on indices or bases that result in a fluctuating interest rate.

The operating lease accrual arises from the differences between the actual rental and average rental at balance sheet date. During the 2012/13 financial year the net amount of R2 605 046 (2012: R2 546 106) has been accrued.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>11. Long-term receivables</b>		
<b>Financial assets at amortised cost</b>		
Sporting bodies and other loans	<b>57,353</b>	<b>70,451</b>
<b>Non-current assets</b>		
Financial assets at amortised cost	42,913	57,353
<b>Current assets</b>		
Financial assets at amortised cost	14,440	13,098
	<b>57,353</b>	<b>70,451</b>

**Sporting bodies:** Loans were granted to sporting bodies before the implementation of the MFMA. No new loans have been issued and the remaining loans are redeemable until 2016. The above amounts relate to two loans that were issued to Beacon Bay Country Club on 30 June 1995 and 30 June 1996 payable over 21.5 and 20.5 years with the last payment due on 31 December 2016 respectively.

No security is held for any of the long-term receivables.

The credit quality of long-term receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings. Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

No long-term receivables defaulted and no terms of any of the long-term receivables were re-negotiated.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

No portion of the long-term receivables was pledged as security for any financial liabilities.

## 12. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	20,810,485	(19,955,270)	855,215	20,810,485	(16,770,325)	4,040,160
Intangible assets under development	18,319,609	-	18,319,609	8,071,428	-	8,071,428
<b>Total</b>	<b>39,130,094</b>	<b>(19,955,270)</b>	<b>19,174,824</b>	<b>28,881,913</b>	<b>(16,770,325)</b>	<b>12,111,588</b>

### Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	4,040,159	-	(3,184,946)	855,213
Intangible assets under development	8,071,428	10,248,181	-	18,319,609
	<b>12,111,587</b>	<b>10,248,181</b>	<b>(3,184,946)</b>	<b>19,174,822</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

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### 12. Intangible assets (continued)

#### Reconciliation of intangible assets - 2012

	Opening balance	Additions	WIP Capitalised	Amortisation	Total
Computer software	6,517,926	-	1,999,413	(4,477,176)	4,040,160
Intangible assets under development	6,843,670	3,227,171	(1,999,413)	-	8,071,428
	<b>13,361,596</b>	<b>3,227,171</b>	<b>-</b>	<b>(4,477,176)</b>	<b>12,111,588</b>

#### Pledged as security

No Intangible Assets were pledged as security.

Intangible assets under development refers to computer software which are not yet available for use and are not amortised.

### 13. Investment property

	2013			2012		
	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	308,191,202	-	308,191,202	320,297,778	-	320,297,778

#### Reconciliation of investment property - 2013

	Opening balance	Fair value adjustments	Total
Investment property	320,297,778	(12,106,576)	308,191,202

#### Reconciliation of investment property - 2012

	Opening balance	Fair value adjustments	Total
Investment property	332,812,331	(12,514,553)	320,297,778

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

No Investment Properties were pledged as security.

The total direct operating expenses for repairs and maintenance on all municipal properties amounts to R12,682,400 (2012: R12,445,133), including repairs and maintenance expenses on investment properties.

Operational expenditure regarding investment property earning rentals and those that are not earning rentals are not available as these expenses pertaining to investment properties are not budgeted for separately on the budget.

There are no restrictions on investment properties.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.



# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 13. Investment property (continued)

The values were determined by an external Professional Valuer registered with the South African Council for the Property Valuers Profession, Registration No. 5000/5.

The value of investment property, comprising of land and buildings was determined by using a combination of three valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparable market transactions.

The preferred valuation methodology applied was that of comparable market related sales, based on use, location and extent. In cases where no reasonable comparable sales were available, the discounted cash flow methodology was used based on market related rentals for similar properties.

In the case of properties which were deemed to be classified as investment properties, for which no comparable market related sales nor rentals exist, such as golf courses, land was valued by multiplying the extent, as confirmed through the deeds office and cadastre, with comparable market related sales based on similar zoning, and not use. In the case of buildings associated with such properties, for which no comparable sales, past or present, could be established, the replacement cost of the buildings were deemed to reflect a fair value of the property.

Rental income from investment properties in respect of monthly and annual leases amounted to R9,051,892 (2012: R7,804,438).

#### Prior year error

Previously reported 30 June 2011

Adjusted	25	-	220,776,439
		-	112,035,892

#### Restated

#### Adjustments for 2012

Adjusted opening balance as at 1 July 2011

Adjusted		-	332,812,331
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		-	(12,514,553)
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#### Adjusted balance as at 30 June 2012

		-	320,297,778
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### 14. Heritage assets

	2013			2012		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Heritage sites	40,181,119	-	40,181,119	40,181,119	-	40,181,119

#### Reconciliation of heritage assets - 2013

	Opening balance	Total
Heritage sites	40,181,119	40,181,119

#### Reconciliation of heritage assets - 2012

	Opening balance	Additions	Total
Heritage sites	39,748,540	432,579	40,181,119

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>14. Heritage assets (continued)</b>		
<b>Prior year errors</b>	49	
Balance previously reported	-	3,853,336
Prior period adjustment	-	(3,420,757)
Reclassification between asset categories	-	39,748,540
<b>Restated</b>		<b>- 40,181,119</b>

## 15. Property, plant and equipment

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	464,574,105	-	464,574,105	449,132,223	-	449,132,223
Buildings	6,238,142	(817,660)	5,420,482	6,238,142	(611,636)	5,626,506
Plant and equipment	81,748,523	(45,114,725)	36,633,798	79,573,281	(33,909,777)	45,663,504
Furniture and fittings	39,426,781	(14,529,089)	24,897,692	33,810,277	(12,389,111)	21,421,166
Motor vehicles	268,830,816	(119,540,418)	149,290,398	244,667,868	(107,317,975)	137,349,893
Office equipment	42,857,126	(29,502,866)	13,354,260	36,923,031	(22,117,962)	14,805,069
Electricity	3,013,920,258	(1,755,608,137)	1,258,312,121	2,980,758,131	(1,663,232,155)	1,317,525,976
Other properties	1,022,997,842	(399,679,045)	623,318,797	1,034,462,328	(371,027,881)	663,434,447
Work in progress (WIP)	805,069,886	-	805,069,886	448,544,381	-	448,544,381
Recreational facilities	280,037,379	(148,686,252)	131,351,127	278,777,816	(137,957,116)	140,820,700
Finance Leased Assets	8,589,038	(2,122,000)	6,467,038	3,584,866	(1,160,733)	2,424,133
Roads	7,848,956,203	(3,776,238,679)	4,072,717,524	7,764,461,969	(3,478,625,907)	4,285,836,062
Wastewater network	3,300,214,464	(2,376,599,632)	923,614,832	3,299,029,616	(2,269,923,610)	1,029,106,006
Water network	3,406,360,896	(2,322,382,161)	1,083,978,735	3,403,132,407	(2,263,957,297)	1,139,175,110
Community buildings	950,582,505	(496,866,760)	453,715,745	950,145,635	(461,636,808)	488,508,827
<b>Total</b>	<b>21,540,403,964</b>	<b>(11,487,687,424)</b>	<b>10,052,716,540</b>	<b>21,013,241,971</b>	<b>(10,823,867,968)</b>	<b>10,189,374,003</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 15. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Non-cash additions	Disposals	Transfers	Adjustments	WIP capitalised	Depreciation	Impairment loss	Total
Land	449,132,223	15,441,882	-	-	-	-	-	-	-	464,574,105
Buildings	5,626,506	-	-	-	-	-	-	(206,024)	-	5,420,482
Plant and equipment	45,663,503	2,019,745	-	(7,067)	-	181,897	-	(11,224,280)	-	36,633,798
Furniture and fittings	21,421,167	1,461,311	-	-	-	4,155,191	-	(2,139,977)	-	24,897,692
Motor vehicles	137,349,892	25,645,938	-	(874,854)	-	-	-	(12,830,578)	-	149,290,398
Office equipment	14,805,070	3,447,848	-	(1,186)	-	2,513,590	-	(7,411,062)	-	13,354,260
Electricity	1,317,525,979	33,162,129	-	-	-	-	-	(92,375,987)	-	1,258,312,121
Other properties	663,434,447	-	-	-	(11,464,486)	-	-	(28,651,164)	-	623,318,797
Work in progress (WIP)	448,544,382	416,157,702	2,571,797	-	-	-	(62,203,996)	-	-	805,069,886
Recreational facilities	140,820,700	623,148	253,617	(215,882)	-	-	758,080	(10,888,536)	-	131,351,127
Finance Leased Assets	2,424,134	-	5,004,172	-	-	-	-	(961,268)	-	6,467,038
Roads	4,285,836,062	80,427,239	-	(25,725,712)	-	-	61,445,916	(329,265,981)	-	4,072,717,524
Wastewater network	1,029,106,006	1,184,848	-	-	-	-	-	(106,676,022)	-	923,614,832
Water network	1,139,175,104	3,228,489	-	-	-	-	-	(58,424,858)	-	1,083,978,735
Community buildings	488,508,827	436,871	-	-	-	-	-	(35,106,418)	(123,535)	453,715,745
	<b>10,189,374,002</b>	<b>583,237,150</b>	<b>7,829,586</b>	<b>(26,824,701)</b>	<b>(11,464,486)</b>	<b>6,850,678</b>	<b>-</b>	<b>(696,162,155)</b>	<b>(123,535)</b>	<b>10,052,716,540</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

2013

2012  
Restated

### 15. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Non-cash additions	Disposals	WIP capitalised	Depreciation	Impairment loss	Total
Land	449,135,223	-	-	(3,000)	-	-	-	449,132,223
Buildings	5,832,531	-	-	-	-	(206,025)	-	5,626,506
Plant and equipment	34,186,969	12,433,148	-	(48,489)	8,902,707	(9,810,831)	-	45,663,504
Furniture and fittings	23,139,838	101,220	-	(2,950)	145,855	(1,962,797)	-	21,421,166
Motor vehicles	130,703,998	19,460,508	-	(649,812)	-	(12,164,801)	-	137,349,893
Office equipment	14,855,114	6,864,306	-	(10,716)	-	(6,903,635)	-	14,805,069
Electricity	1,366,090,288	5,264,320	-	(1,324,763)	43,136,802	(95,640,666)	-	1,317,525,981
Other properties	665,659,241	1,779,687	25,496,118	-	-	(29,500,599)	-	663,434,447
Work in progress (WIP)	624,802,216	121,145,787	-	-	(297,403,622)	-	-	448,544,381
Recreational facilities	149,373,486	2,275,871	-	(51,217)	-	(10,777,440)	-	140,820,700
Finance Leased Assets	2,229,488	-	749,791	-	-	(555,146)	-	2,424,133
Roads	4,521,192,834	34,504,364	-	(2,399,672)	29,304,968	(294,967,857)	(1,798,575)	4,285,836,062
Wastewater network	989,866,882	3,876,961	-	(16,411)	141,342,205	(105,963,631)	-	1,029,106,006
Water network	1,144,726,616	2,042,918	-	-	60,367,359	(67,961,789)	-	1,139,175,104
Community buildings	510,262,502	4,487,177	-	(5,649,815)	14,203,725	(34,794,763)	-	488,508,826
	<b>10,632,057,226</b>	<b>214,236,267</b>	<b>26,245,909</b>	<b>(10,156,845)</b>	<b>-</b>	<b>(671,209,980)</b>	<b>(1,798,575)</b>	<b>10,189,374,001</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

2013

2012  
Restated

### 15. Property, plant and equipment (continued)

#### Proceeds on disposal of PPE

2013

2012

Carrying value of PPE

26,824,701

10,156,846

Net gain/(loss) on disposal of assets

(8,166,366)

(7,546,528)

**Total**

**18,658,335**

**2,610,318**

#### Water network

49

Balance previously reported

1,264,294,499

Prior period adjustments

(125,119,389)

**Restated balance**

**1,139,175,110**

#### Roads

49

Balance previously reported

2,043,540,191

Prior period adjustments

- 4,383,777

Reclassification between asset categories

2,237,912,095

**Restated balance**

**4,285,836,063**

#### Land

49

Balance previously reported

- 3,131,787,499

Prior period adjustments

- (2,313,722,612)

Reclassification between asset categories

- (368,932,664)

**Restated**

**- 449,132,223**

#### Buildings

49

Balance previously reported

- 1,145,917,099

Prior period adjustments

- (844,950,428)

Reclassification between asset categories

- (295,340,165)

**Restated**

**- 5,626,506**

#### Other properties

49

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>15. Property, plant and equipment (continued)</b>		
Balance previously reported		- 416,664,653
Prior period Landfill site opening balance adjustment	21	- (12,536,461)
Prior period Landfill site movement adjustment	21	- (1,592,723)
Reclassification between asset categories		- 260,898,978
<b>Restated</b>		<b>- 663,434,447</b>
<b>Work in progress</b>	49	
Balance previously reported		- 424,832,747
Prior period adjustments		- (36,230,591)
Reclassification between asset categories		- 59,942,225
		<b>- 448,544,381</b>
<b>Recreational facilities</b>	49	
Balance previously reported		- 61,956,194
Prior period adjustments		- (32,841,173)
Reclassification between asset categories		- 111,705,679
<b>Restated</b>		<b>- 140,820,700</b>
<b>Community buildings</b>	49	
Balance previously reported		- 236,221,253
Prior period adjustments		- (30,311,285)
Reclassification between asset categories		- 282,598,858
<b>Restated</b>		<b>- 488,508,826</b>
<b>Non-cash movements 2013</b>	45	
Recreational facilities adjustments (also adjusted to equity)		- (253,616)
Recreational facilities disposal (also adjusted to operating account)		- 37,693
<b>Non-cash property, plant and equipment adjustments</b>		<b>- (215,923)</b>
<b>Prior year adjustments</b>	45	
Property, plant and equipment adjusted to loss on disposal of assets		- 3,733,952

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 15. Property, plant and equipment (continued)

Property, plant and equipment adjustment to opening balance

- 50,142,699

### Adjustment of prior year transactions

- 53,876,651

### Electricity

Balance previously reported

- 1,351,116,031

Prior period opening balance adjustments

49 - (34,429,802)

Prior period adjustment

49 - 839,751

### Restated

- 1,317,525,980

There are currently 8 468 assets that have carrying values between R0.00 and R1.00, which are still in use.

As at 30 June 2013 there are 6 buses that are temporary idle with a carrying value of R 10 738 939.

As at 30 June 2013 the total cost of all fully depreciated assets amount to R 939 183 915 (2012 restated: R 472 948 560).

As at 30 June 2013 there are no assets retired from active use and held for disposal.

### Pledged as security

No assets were pledged as security except for those assets subject to finance lease as disclosed below.

BCMM maintains a separate register for approximately 15 000 properties whereby BCMM holds title but does not exercise control over these properties which have therefore not been recognised in the financial statements.

### Borrowing costs capitalised

No borrowing costs were capitalised during the year.

### Assets subject to finance lease (Net carrying amount)

Leases - Office equipment	6,467,038	2,424,134
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# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 15. Property, plant and equipment (continued)

#### Revaluations

The values were determined by an external Professional Valuer registered with the South African Council for the Property Valuers Profession, Registration No. 5000/5.

The value of property, comprising of land and buildings was determined by using a combination of three valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparable market transactions.

The preferred valuation methodology applied was that of comparable market related sales, based on use, location and extent. In cases where no reasonable comparable sales were available, the discounted cash flow methodology was used based on market related rentals for similar properties

Land and buildings are re-valued every 4 years.

The fair values were determined directly by reference to observable prices and an active market or recent market transactions at arms length terms.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. The municipality has taken all reasonable steps to ensure the completeness of the fixed asset register by using the best international and local methodology and practice for asset verification, within the limits of the available organisational, human and financial capacity.

### 16. Non-current investments

These investments are classified as financial assets at amortised cost.

No security is held for any of the non-current investments.

No non-current investments defaulted and no terms of any of the non-current investments were re-negotiated.

No portion of the non-current investments was pledged as security for any financial liabilities.

The credit quality of non-current investments that are neither past nor due nor impaired can be assessed by reference to external credit ratings. Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

No portion is past due or impaired.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Fixed term deposits of R890 894 (2012: R856 600 ) are invested with Nedbank at interest rates of 2% - 5.17% (2012: 2% - 5.32%)

Fixed deposits long term	892,235	856,601
	<b>892,235</b>	<b>856,601</b>



# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 17. Investment in associate

Name of entity	Listed / Unlisted	% holding 2013	% holding 2012	Carrying amount 2013	Carrying amount 2012	Fair value 2013	Fair value 2012
East London Industrial Development Zone (Pty) Ltd (IDZ)	Unlisted			-	-	260	260
BCMM share in IDZ - 26,000 shares @ 0,01c		26.00 %	26.00 %	260	260	-	-
				260	260	260	260

The carrying amount of the associate is shown net of impairment losses.

### Movements in carrying value

Opening balance	260	260
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Investment in associate at 30 June 2013 amounted to R 260 (2012: R 260).

In the prior period the associate incurred a deficit which resulted in the municipality's interest (accumulated share of surplus in the associate) being reduced by R12 087 832.

### Fair value

Management could not make a reliable estimate of the fair value of the associate as the information to determine the fair value is not readily available. Management however believes that the face value approximates the fair value of the shares.

### Principal activities, country of incorporation and voting power

Legal name	Principal activity	Country	Proportion of voting power
East London Industrial Development Zone (Pty)Ltd	Development of East London's industrial development zone.	SA	26%

### Summary of controlled entity's interest in associate

Total equity	(18,206,980)	(29,526,840)
Total liabilities	336,908,841	442,683,592
Total assets	318,701,861	413,156,752
Deficit	(2,626,082)	(13,890,166)
Revenue	4,896,511	6,476,798

### Associate with different reporting dates

The financial statements of East London Industrial Development Zone (Proprietary) Limited are prepared for the accounting period 01 April 2012 to 31 March 2013. The results for the quarter ending 30 June 2013 were not available at the time of completing the Financial Statements.

### Unrecognised share of loss of associate

The municipality does not recognise its share of the deficits of East London Industrial Development Zone (Proprietary) Limited. The investment is held at R 260 and the municipality has no obligation for any deficits of the associate. The total unrecognised deficits for the current period amount to R2 626 082 (2012 : R13 890 166). The accumulated unrecognised deficits to date amount to R 19 826 977 (2012: R 41 614 932).

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 18. Borrowings

#### Held at amortised cost

Annuity loans	647,177,164	645,789,732
	<b>647,177,164</b>	<b>645,789,732</b>

The entity did not default on any of the borrowings in respect of capital or interest portions.

No terms attached to the borrowings were re-negotiated.

#### Non-current liabilities

At amortised cost	597,206,903	604,256,175
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#### Current liabilities

At amortised cost	49,970,261	41,533,557
	<b>647,177,164</b>	<b>645,789,732</b>

### 19. Consumer deposits

Electricity	27,165,932	19,452,348
Water	18,353,333	17,467,545
	<b>45,519,265</b>	<b>36,919,893</b>

The amounts reflected represent a cost value as Management believes that the cost value approximates the fair value.

Guarantees held in lieu of Electricity and Water Deposits amounted to R13 190 628 (2012: R12 087 359).

The consumer deposits are reflected at nominal value as they are utilised as part of the settlement of final consumer accounts.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>20. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	2,765,600	798,306
- in second to fifth year inclusive	4,898,477	1,518,725
	<u>7,664,077</u>	<u>2,317,031</u>
less: future finance charges	(2,036,425)	(863,249)
<b>Present value of minimum lease payments</b>	<b>5,627,652</b>	<b>1,453,782</b>
<b>Present value of minimum lease payments due</b>		
- within one year	1,686,593	463,541
- in second to fifth year inclusive	3,941,059	990,241
	<u>5,627,652</u>	<u>1,453,782</u>
Non-current liabilities	3,941,058	990,241
Current liabilities	1,686,593	463,541
	<u>5,627,651</u>	<u>1,453,782</u>

The average lease term was 3-5 years and the average effective borrowing rate was 7.35% (2012: 8.50%).

Interest rates are either fixed or variable at the contract date. All leases have fixed or variable repayments and in certain instances contingent rent is payable, as per stipulations in the lease agreements. The contingent rents were recognised as an expense for the period.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

The entity did not default on any of the interest or capital repayments of the finance leases.

No terms and conditions of the finance leases were re-negotiated.

After the initial period the leases shall automatically be renewed on a monthly basis unless cancelled by either party.

All risks and rewards of ownership remain with the lessor upon expiry of the lease and there is no option to purchase the leased asset.

There are no restrictions imposed on the lease arrangements.

The contingent rent for the current year amounted to R743 123. Contingent rent is based on the annual operating charges of leased equipment which are escalated at a standard interest rate.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated	
<b>21. Provisions</b>			
<b>Reconciliation of provisions - 2013</b>			
	Opening Balance	Utilised during the year	Total
Landfill sites	178,844,606	(11,464,485)	167,380,121
<b>Reconciliation of provisions - 2012</b>			
	Opening Balance	Additions	Total
Landfill sites	153,348,488	25,496,118	178,844,606
Non-current liabilities		49,968,510	64,922,445
Current liabilities		117,411,611	113,922,161
		<b>167,380,121</b>	<b>178,844,606</b>
<b>Prior period error</b>	49		
Balance previously reported		-	192,973,790
Prior period opening balance Landfill site adjustment		-	(12,536,461)
Prior period movement Landfill site adjustment		-	(1,592,723)
<b>Restated</b>		-	<b>178,844,606</b>

With regards to the Provision for Landfill sites: It is stated in the Department of Water Affairs and Forestry "Minimum Requirements for Waste Disposal by Landfill", Second Edition 1998, Chapter 2.3.4, that "All landfills except those closed prior to August 1990 when the permitting system came into effect, must be permitted before they can be considered closed. Closure will involve, inter alia, the application of final cover, topsoil, vegetating, drainage maintenance and leachate management." Rehabilitation costs in respect of geohydrological monitoring is anticipated to be a recurring cost for the next 30 years. The future value of the rehabilitation of landfill sites obligation was calculated by inflating the non current rehabilitation cost to an estimated future cost which was then discounted to present value.

Assumptions used:

- Interest rate used is BCMM's borrowing rate at 10.09% (2012: 7.65%).

- The valuation for the landfill site provision was done by Munitech (Pty) Ltd, a company which specialises in infrastructure - maintenance and operations and municipal services, which includes solid waste collection and disposal. The company registration number is 1988/761/07 and the SAACE membership number is 439.

In the calculation of the provision for landfill sites, the municipality adjusted the interest rate from 7.65% in 2012 to 10.09% in 2013, which is the interest rate for long term borrowings as reflected in note 50 of the AFS. If an interest rate of 10.09% was used in the 2012 calculation, this would have resulted in a provision amount of R158 296 774 compared to the amount of R178 844 606 as stated in the above note.

The comparative figure for the previous year in the amount of R192 973 790 was restated by R14 129 184 due to site valuations of two landfill sites that changed significantly and were no longer feasible to rehabilitate.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand		2013	2012 Restated
<b>22. Payables from exchange transactions</b>			
Accrued leave pay		55,546,070	54,590,844
BCMET		1,645,347	1,910,795
Deposits received		5,884,942	5,277,546
Market creditors		858,561	685,208
Other creditors		43,958,774	79,207,566
Payments received in advance		84,942,460	61,551,930
Retention monies		25,479,338	24,415,539
Trade payables		353,121,737	224,076,214
		<b>571,437,229</b>	<b>451,715,642</b>
<b>Prior period errors - Deposits received</b>	49		
Deposits received previously reported		-	7,713,276
Adjusted		-	(2,435,730)
<b>Restated</b>		-	<b>5,277,546</b>
<b>Prior period errors - Other creditors</b>	49		
Other creditors previously reported		-	75,498,841
Adjusted: Scarce skills		-	3,708,725
<b>Restated</b>		-	<b>79,207,566</b>
<b>Summary of prior period errors</b>			
Previously reported	49	-	449,757,440
Adjusted for Deposits received		-	(2,435,730)
Adjusted for Other creditors		-	3,708,725
Adjusted for Market creditors		-	685,208
<b>Restated</b>		-	<b>451,715,643</b>
<b>Prior period error</b>			
Outstanding cheques recognised as market creditors	5	-	685,208

Accrued leave pay represents the total value of all leave due to staff as at 30 June.

BCMET - This amount represents funds allocated to Buffalo City Metropolitan Municipality (BCMM) to promote the planning and provision of adequate urban transport facilities through the preparation and implementation of urban transport plans and to provide for matters connected therewith. The Provincial Urban Transport Board was created under the auspices of the Urban Transport Act to facilitate the goals outlined in the Act. Funds were allocated to achieve those goals and the allocation of funds for projects are conditional on the approval by the Board. In terms of the Act, the funds (which are represented by a bank and an investment account - refer to note 5) are under the administration of the "Core City". Both of these accounts are under the control of employees of BCMM and the strategic guidance of the Urban Transport Board.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>23. Unspent conditional and unconditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional and unconditional grants and receipts</b>		
Government grants	243,490,910	676,286,555
Provincial grants	189,832,657	45,955,939
Other conditional grants	16,825,046	17,295,867
	<b>450,148,613</b>	<b>739,538,361</b>
<b>Prior period errors</b>	49	
Government grants previously reported	-	787,665,935
Adjusted	-	(48,127,574)
<b>Restated</b>		<b>- 739,538,361</b>
<b>Detail of conditional and unconditional grants</b>		
Conditional grants	251,735,169	588,173,610
Unconditional grants	198,413,444	151,364,751
	<b>450,148,613</b>	<b>739,538,361</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

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### 23. Unspent conditional and unconditional grants and receipts (continued)

#### Movements on grants

Grant description	Unspent balance 30 June 2012	Receipts	Interest	Transfer operating expenditure	Transfer capital expenditure	Other transfers	Unspent balance 30 June 2013
Transitional Grant	113,769	-	-	-	-	-	113,769
Finance Management Grant	(996)	1,500,000	-	(1,500,000)	-	996	-
Land Affairs Grant	68,997,884	-	3,303,913	-	-	-	72,301,797
Urban Settlement Development Grant	245,455,917	499,474,000	-	(6,231,797)	(465,007,889)	(65,510,841)	208,179,390
Municipal Infrastructure Grant	8,244,260	-	-	-	-	-	8,244,260
Public Transport Infrastructure Systems Grant	280,018,116	3,000,000	-	-	(133,342)	(249,207,016)	33,677,758
Energy Efficient Technology Grant	5,588,975	-	-	-	-	-	5,588,975
European Commission Grant	802,587	-	37,437	-	-	-	840,024
Land Affairs Grant	60,735,251	-	2,806,634	(978)	-	-	63,540,907
Infrastructure Skills Development Grant	-	3,000,000	-	(1,265,458)	(654,959)	-	1,079,583
Department of Water Affairs Grant	604,427	5,830,681	-	(7,729,946)	-	1,294,838	-
Expanded Public Works Program Grant	-	1,484,000	-	(929,823)	-	-	554,177
Municipal Support Programme Grant	289,906	-	-	-	-	-	289,906
Disaster Relief Grant	-	-	713	-	-	(713)	-
Local Economic Development Grant	3,312,282	-	-	-	-	-	3,312,282
Provincial Government Premiers Grant	67,421	-	-	-	-	-	67,421
Mdantsane Urban Renewal Grant (Mount Ruth)	7,882,979	-	365,518	-	-	-	8,248,497
Health Management Systems Grant	176,266	-	-	-	-	-	176,266
Aids Training Information Centre Grant	11,048,601	-	-	-	-	(72,821)	10,975,780
Department of Sports Recreation Arts & Culture	10,437,047	-	-	-	-	-	10,437,047
Ward Committee Training Grant	375,372	-	-	-	-	-	375,372
Amatole District Municipality Grant	1,979,270	-	-	-	-	-	1,979,270
Buffalo City Metropolitan Transport Grant	222,603	-	-	-	(204,597)	-	18,006
Donation and Public Contribution Grant	5,225,093	272,201	-	-	-	-	5,497,294
Sector Education Training Authority Grant	470,892	3,418,667	-	-	-	(3,889,559)	-
Department Economic Affairs and Tourism Grant	127,126	-	-	-	-	-	127,126
Vuna Award Grant	1,048,758	-	-	-	-	-	1,048,758
Gavle Grant	511,514	-	30,235	(8,790)	-	-	532,959

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated						
<b>23. Unspent conditional and unconditional grants and receipts (continued)</b>								
Glasgow Partnership Grant	89,858	-	-	-	-	-	-	89,858
Public Development Areas Development Fund	877,963	188,125	-	-	-	-	-	1,066,088
Eastern Cape Development Agency Grant	67,359	-	-	-	-	-	-	67,359
Umsobomvu Youth Grant	679,028	-	31,379	-	-	-	-	710,407
Compost Waste Management Grant	60,640	-	-	-	-	-	-	60,640
Leiden Grant	531,844	49,613	24,010	(413,977)	-	-	-	191,490
Human Settlement Development Grant	4,538,807	20,879,696	736,712	(47,918,009)	(6,220,234)	27,983,028	-	-
Housing and Infrastructure Development Grant	347,162	-	15,639	-	-	-	-	362,801
Electricity Demand Side Management Grant	74,933	10,000,000	-	-	(10,071,435)	(3,498)	-	-
Integrated National Electrification Programme	6,253,799	30,000,000	-	-	(33,277,932)	(2,975,867)	-	-
Department of Water Affairs Grant	6	1,374,000	-	(1,125,786)	-	(248,220)	-	-
Mdantsane Upgrade Water Supply Grant	31,482	-	1,418	-	-	-	-	32,900
Mdantsane Upgrade Water and Sewerage Grant	147,144	-	6,628	-	-	-	-	153,772
Water Supply to Cove Rock Grant	327,858	-	-	-	-	-	-	327,858
Bequests	129,288	-	3,615	-	-	-	-	132,903
Sundry Grants	3,985,947	-	11,973	-	-	-	-	3,997,920
Other Grants ex Amatole District Council	426,365	-	646	-	-	-	-	427,011
Sundry Housing Grants	7,233,561	-	87,423	-	-	(2,000,000)	5,320,984	
	<b>739,538,364</b>	<b>580,470,983</b>	<b>7,463,893</b>	<b>(67,124,564)</b>	<b>(515,570,388)</b>	<b>(294,629,673)</b>	<b>450,148,615</b>	
<b>Prior period errors</b>						49		
Unspent grants previously reported							-	787,665,936
Adjustments to urban settlement development grant							-	(21,858,431)
Ajustments to municipal infrastructure grant							-	(26,269,143)
<b>Restated</b>							-	<b>739,538,362</b>

All conditions for the funding were complied with and no funds were withheld.  
 These amounts are invested in a ring-fenced investment until utilised.  
 Conditional grants amount to R251 735 169 and unconditional grants amount to R198 413 440.



# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>24. Post- retirement medical obligation</b>		
<b>The amount recognised in the statement of financial position are as follows:</b>		
<b>Carrying value</b>		
Balance at beginning of year	341,426,029	280,763,820
Interest cost	24,583,110	26,493,119
Current service cost	12,647,770	13,851,056
Actual employer benefit payments	(13,928,851)	(13,459,130)
Actuarial (gain)/loss recognised in the year	(23,165,235)	33,777,164
<b>Net liability</b>	<b>341,562,823</b>	<b>341,426,029</b>
<b>Net costs</b>		
Interest cost	24,583,110	26,493,119
Current service cost	12,647,770	13,851,056
Actuarial (gain)/loss recognised in the year	(23,165,235)	33,777,164
<b>Net cost per Statement of Financial Performance</b>	<b>33 14,065,645</b>	<b>74,121,339</b>
The municipality employees contribute to 6 accredited medical aid schemes, namely LA Health, Bonitas, Key Health, SAMWU Med, FedHealth and Hosmed. Pensioners continue on the option they belonged to on the day of their retirement.		
The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was prepared on 22 July 2013 by ARCH Actuarial Consulting using the Projected Unit Credit Method.		
The municipality opted not to recognise the actuarial loss applying the "Corridor" method.		
The best estimates for the employer benefit payments in the 2013/14 financial period is expected to be R14 850 248 (The actual employer benefit payments in the 2012/13 financial period was R13 928 851).		
<b>Key assumptions used</b>		
Assumptions used at the reporting date:		
Discount rates used	7.88 %	8.59 %
Medical aid inflation rate	6.62 %	7.30 %
Net effective discount rate	1.19 %	1.20 %
Post retirement subsidy	60.00 %	60.00 %
<b>Retirement age</b>		
Males	63	63
Females	63	63
Number of eligible members	2,514	2,561
Number of pensioners	518	520
<b>1% change in the assumed medical inflation:</b>		
Projected liability increase/(decrease) - 2013	51,234,423	(40,987,539)
Projected liability increase/(decrease) - 2012	54,628,164	(44,385,384)
Projected liability increase/(decrease) - 2011	42,114,610	(36,499,296)
Projected liability increase/(decrease) - 2010	43,165,000	(35,058,000)
Mortality during employment - SA 85-90 Ultimate table adjusted for female lives.		
Mortality post retirement - PA901 Ultimate table rated down one year.		

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>25. Revaluation reserve</b>		
Opening balance	2,446,637,596	16,047,826
Depreciation transfer to income/correction prior year	45 (573,137)	(2,294,320)
Revaluation	(18,004,241)	2,432,884,091
	<b>2,428,060,218</b>	<b>2,446,637,596</b>
<b>Prior year error</b>		
Balance previously disclosed	-	15,474,690
Revaluation reserve realised (Refer to Statement of Changes in Net Assets)	-	(1,721,185)
Revaluation (Refer to Statement of Changes in Net Assets)	-	2,432,884,091
<b>Restated</b>		<b>- 2,446,637,596</b>
<b>Cash flow movements 2013</b>	45	
Movements for the year	-	18,577,378
Depreciation transfer to income (equity)	-	(573,137)
Community assets-2013 impairment released from revaluation reserve as offset against impairment expenditure	-	(52,142)
Community assets-2013 disposals released from the revaluation reserve as offset against loss on sale of assets	-	(37,697)
<b>Total</b>		<b>- 17,914,402</b>
<b>26. Financial assets by category</b>		
The accounting policies for financial instruments have been applied to the line items below:		
<b>2013</b>		
	Financial assets amortised	Total
Other financial assets	57,353	57,353
Trade and other receivables from exchange transactions	383,984,497	383,984,497
Other receivables from non-exchange transactions	212,232,175	212,232,175
Cash and cash equivalents	1,841,692,449	1,841,692,449
Non-current investments	892,235	892,235
Vat receivable	65,200,497	65,200,497
	<b>2,504,059,206</b>	<b>2,504,059,206</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>26. Financial assets by category (continued)</b>		
<b>2012</b>		
	Financial assets amortised	Total
Other financial assets	70,451	70,451
VAT receivable	34,129,583	34,129,583
Trade and other receivables from exchange transactions	312,473,204	312,473,204
Other receivables from non-exchange transactions	146,312,964	146,312,964
Cash and cash equivalents	1,520,678,245	1,520,678,245
Non-current investments	856,861	856,861
	<b>2,014,521,308</b>	<b>2,014,521,308</b>
<b>Adjustment of Financial assets previously reported</b>	49	
Previously reported		- 1,988,064,583
Adjusted: Property rates (Other receivables from non-exchange transactions)	8	- (3,013,101)
Adjusted: Other receivables (Other receivables from non-exchange transactions)	8	- (4,280,785)
VAT recognised as financial asset	9	- 34,129,583
Adjusted: Bank overdraft		- (1,064,181)
Adjusted: Market creditor		- 685,208
<b>Restated</b>		<b>- 2,014,521,307</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

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### 27. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

#### 2013

	Financial liabilities at amortised cost	Measured at fair value	Total
Accrued leave pay	55,546,070	-	55,546,070
BCMET	1,645,347	-	1,645,347
Payments received in advance	84,942,460	-	84,942,460
Other financial liabilities	647,177,164	-	647,177,164
Trade and other payables	423,418,410	-	423,418,410
Consumer deposits	-	45,519,265	45,519,265
Other deposits	-	5,884,942	5,884,942
Unspent conditional grants	450,148,613	-	450,148,613
	<b>1,662,878,064</b>	<b>51,404,207</b>	<b>1,714,282,271</b>

#### 2012

	Financial liabilities at amortised cost	Measured at fair value	Total
Accrued leave pay	54,590,844	-	54,590,844
BCMET	1,910,795	-	1,910,795
Payments received in advance	61,551,930	-	61,551,930
Other financial liabilities	645,789,732	-	645,789,732
Trade and other payables	328,384,526	-	328,384,526
Consumer deposits	-	36,919,893	36,919,893
Other deposits	-	5,277,546	5,277,546
Unspent conditional grants	739,538,361	-	739,538,361
	<b>1,831,766,188</b>	<b>42,197,439</b>	<b>1,873,963,627</b>

#### Adjustment of financial liabilities previously reported

Previously reported	49	-	1,015,477,675
Resort rental income erroneously disclosed as caravan deposits	22	-	(2,435,730)
Scarce skills	22	-	3,708,725
Unspent conditional grants recognised as financial liability	23	-	739,538,361
Accrued leave pay, BCMET, payments received in advance, market creditors included in trade and other payables. Recognised as financial liabilities	22	-	118,738,777
Bank overdraft	5	-	(1,064,181)

#### Restated

**- 1,873,963,627**

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>28. Revenue</b>		
Service charges	1,964,268,076	1,754,709,786
Rental of facilities and equipment	15,485,474	14,619,601
Licences and permits	15,299,244	15,707,756
Other revenue	203,317,402	138,057,912
Interest received - investment	106,143,844	82,608,879
Property rates	580,100,409	522,514,480
Government grants & subsidies	1,235,137,628	907,186,380
Public contributions and donations - operating projects	-	599,152
Fines	5,979,206	5,455,740
Public contributions and donations - PPE	-	730,105
Fuel levy	317,781,000	170,477,000
	<b>4,443,512,283</b>	<b>3,612,666,791</b>
<b>The amounts included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	1,964,268,076	1,754,709,786
Rental of facilities and equipment	15,485,474	14,619,601
Licences and permits	15,299,244	15,707,756
Other revenue	203,317,402	138,057,912
Interest received - investment	106,143,844	82,608,879
	<b>2,304,514,040</b>	<b>2,005,703,934</b>
<b>The amounts included in revenue arising from non-exchange transactions are as follows:</b>		
<b>Taxation revenue</b>		
Property rates	580,100,409	522,514,480
<b>Transfer revenue</b>		
Government grants and subsidies	1,235,137,628	907,186,380
Public contributions and donations - operating projects	-	599,152
Fines	5,979,206	5,455,740
Public contributions and donations - PPE	-	730,105
Fuel levy	317,781,000	170,477,000
	<b>2,138,998,243</b>	<b>1,606,962,857</b>
<b>Prior year errors - Rental of facilities and equipment</b>	49	
Previously reported	-	13,387,803
Adjusted	-	1,231,798
<b>Restated</b>	-	<b>14,619,601</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>29. Property rates</b>		
<b>Rates received</b>		
Residential	302,755,675	269,341,269
Commercial	271,383,807	243,352,437
Municipal	2,557,395	967,510
Public Benefit Organisation	41,092	4,580
Educational	4,389	5,586,571
Agricultural	3,251,927	3,117,285
Public Service Infrastructure	503,298	318,116
Vacant land	22,369,422	21,978,245
Less: Income forgone	(22,766,596)	(22,151,533)
	<b>580,100,409</b>	<b>522,514,480</b>

### Valuations

Residential	41,099,633,920	41,152,218,219
Commercial	14,769,186,800	14,639,490,800
Public Benefit Organisation	22,357,000	2,800,000
Municipal	1,709,490,766	1,904,813,166
Rural Communal Land and Special	3,361,122,618	1,407,397,700
Educational	853,000	1,219,509,000
Agricultural	1,769,274,990	1,905,430,990
Public Service Infrastructure	273,829,000	277,782,000
Vacant land	1,014,486,202	1,119,340,202
	<b>64,020,234,296</b>	<b>63,628,782,077</b>

The Buffalo City Metropolitan Municipality is required, in terms of the Municipal Property Rates Act, Act 6 of 2004 (MPRA) to undertake a General Valuation on land and buildings every 4 years and a supplementary valuation at least once a year. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The institution undertook a tendering process to procure the services of a supplier to assist with the preparation of a valuation roll that needs to be presented to the Municipal Manager by 31 January 2014. An unsuccessful tenderer has instituted legal proceedings against the award that was made by the Municipality. Arising from this action, a court has interdicted the Municipality from continuing with the process until a judgement has been made by the court on the issue. The interdict placed on the institution to prevent the continued implementation of a General Valuation process is resulting in a risk that it may not achieve the compliance requirements in terms of the MPRA and may not be able to levy rates revenue in the 2014/15 financial year.

Rates are levied on a monthly basis (the due date for monthly accounts is the 15th of every month). Consumers must apply if they want to pay annually with the final date for payment for annual accounts being 30 September 2014. Interest at a standard rate (as amended from time to time), is levied on rates outstanding after 30 September, except where the owner is paying in installments.

### Tariffs levied R/cents

Agricultural	0.001838	0.001636
Business	0.018375	0.016362
Educational	0.005145	0.004581
Public Service Infrastructure	0.001838	0.001636
Residential	0.007350	0.006545
Vacant Land	0.022050	0.019635

Buffalo City Metropolitan Municipality grants rebates, in terms of the Municipality's rates policy to the following category of owners:

A 40% rebate to senior citizens if they meet certain requirements.

A rebate/discount of up to 75%, where the Municipality does not supply some or all of the following services:

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 29. Property rates (continued)

Constructed public roads	15.0 %	15.0 %
Water supply	22.5 %	22.5 %
Refuse removal service	7.5 %	7.5 %
Electricity supply	15.0 %	15.0 %
Sewerage service	15.0 %	15.0 %
	<b>75.00 %</b>	<b>75.00 %</b>

- ▶ Properties that were not rated before 2009 qualify for a compulsory phase in period of three years in terms of Section 21 of the MPRA. Discount for 2013 was nil% (2012: 25%). The phase in discount in terms of Section 21 of the Municipal Property Rates Act (MPRA) lapsed in the 2011/12 financial year.
- ▶ Impermissible rates (Section 17 of the MPRA):
  - Section 17(1)(a) - First 30% of the market value of public service infrastructure.
  - Section 17(1)(h) - R15 000 on market value of residential properties.
  - Section 17(1)(i) - Properties registered in the name of and used for public worship by religious communities, including an official residence registered in the name of that community which is occupied by an office bearer of that community.

### 30. Service charges

Sale of electricity	1,265,868,452	1,137,197,632
Sale of water	271,026,418	239,551,504
Sewerage and sanitation charges	223,023,307	197,957,711
Refuse removal	198,898,045	175,340,728
Other service charges	5,451,854	4,662,211
	<b>1,964,268,076</b>	<b>1,754,709,786</b>

### 31. Government grants and subsidies

#### Operating grants

Government grants - operating projects	19,206,555	25,641,349
Government grants and subsidies - unconditional	652,442,674	663,677,220
Government grants - housing projects	47,918,009	31,616,463
	<b>719,567,238</b>	<b>720,935,032</b>

#### Capital grants

Government grants (capital: PPE)	515,570,390	186,251,348
	<b>515,570,390</b>	<b>186,251,348</b>
	<b>1,235,137,628</b>	<b>907,186,380</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

#### Amendment to government grant (PPE) previously reported

Government grant - PPE previously reported	-	184,968,213
Adjusted for public contributions and donations - PPE	-	1,283,135
<b>Restated</b>	<b>-</b>	<b>186,251,348</b>

### Unspent conditional grants and receipts

Conditions still to be met - remaining liabilities (see note 23).

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>32. Other revenue</b>		
Administration fees	44,584	26,055
Admission fees	1,794,120	1,803,192
Application: Town planning	70,832	33,388
Cemetery fees	6,120,275	5,800,317
Cold storage fees	413,910	487,416
Commission	16,953,201	15,412,627
Coupons and clip tickets	1,576,794	1,657,828
Dog tax and penalties	728,981	620,211
Fire brigade	337,514	180,558
Fire levy charges	46,278,790	40,780,779
Grazing fees	51,276	52,622
Hire charges	371,402	400,385
Insurance	1,132,222	2,713,626
Levy on gates	45,564	90,757
Library	23,738	24,130
Meter test fees	31,071	34,492
Parking meters	119,949	192,648
Photocopies	94,532	103,523
Plan approval fees	5,164,972	4,459,391
Private works	1,400,278	1,261,309
Sale of plants and animals	11,203	39,671
Scrap	3,302,845	794,177
Service connections and reconnections	11,999,197	7,077,038
Street frontage and administration fees	281,838	270,807
Sub division fees	1,036,732	545,545
Sundry income	72,885,477	23,817,644
Tender receipts	316,656	523,609
Towing fees	33,808	51,824
Vehicle registrations	30,695,641	28,802,345
	<b>203,317,402</b>	<b>138,057,914</b>
<b>Prior year errors</b>	49	
Balance previously stated	-	117,759,465
Other revenue - Scrap income for waste disposal sites overstated	-	(1,978,231)
Other revenue - Reclaimed VAT for USD and MIG - sundry income	-	22,276,679
<b>Restated</b>	-	<b>138,057,913</b>



# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>33. General expenses</b>		
Advertising	2,476,131	2,210,070
Assessment rates & municipal charges	1,669,591	2,195,640
Assets expensed	1,972,741	1,857,599
Auditors remuneration	9,219,239	7,328,872
BCMET	236,082	283,029
Bank charges	5,582,795	5,778,184
Chemicals	14,277,663	15,271,994
Cities network	321,539	292,308
Cleaning	3,323,398	4,056,593
Commission paid	12,431,331	11,133,109
Community development and training	-	7,218
Computer expenses	7,624,331	2,101,289
Conferences and seminars	3,258,715	2,062,661
Consulting and professional fees	30,712,954	29,598,390
Consumables	6,384,656	6,838,765
DWAF	5,850,062	4,227,598
Disconnections	6,344,239	3,768,702
Electricity	44,874,856	42,236,581
Entertainment	2,577,006	2,032,754
Essential users cost	13,028,671	11,862,533
Fuel and oil	41,114,758	31,455,269
Hire (labour and plant)	1,350,355	1,540,921
Horticulture	1,944	-
IT expenses	3,215,365	3,954,888
Insurance	15,859,288	15,520,704
Lease rentals on operating lease	51,172,482	40,672,197
Levies	13,646,090	13,225,798
Magazines, books and periodicals	1,563,835	2,443,226
Marketing	144,951	244,400
Motor vehicle expenses	4,259,245	3,985,988
Operating and housing projects ex grants	147,271,362	100,939,751
Other expenses	62,094,995	42,236,568
Post-retirement medical obligation net cost	14,065,645	74,121,339
Postage and courier	4,408,899	4,695,504
Printing and stationery	8,999,445	8,132,810
Promotions	423,574	342,366
Refuse	6,212,935	8,831,682
Royalties and license fees	8,772,290	8,366,907
Security (Guarding of municipal property)	189,097	386,217
Software expenses	941,938	326,682
Special events	2,908,093	1,159,801
Subscriptions and membership fees	9,801,914	9,500,000
Telecommunication costs (telephones, faxes and cell phones)	20,524,864	20,490,877
Title deed search fees	15,597	6,966
Training	3,008,454	3,133,866
Travel - local	7,009,710	6,233,208
Travel - overseas	1,659,289	1,114,021
Uniforms	6,980,293	6,832,462
Water	5,161,896	3,906,151
	<b>614,944,603</b>	<b>568,944,458</b>
<b>Amendment to general expenses previously disclosed</b>		
General expenses previously reported	-	593,470,081
Medical aid obligation net cost(ex statement of financial performance)	-	74,121,339
Poor relief (now disclosed per note 43: grants & subsidies)	-	(98,646,962)
<b>Amended total</b>		<b>- 568,944,458</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>34. Employee related costs</b>		
Basic emoluments	610,444,235	602,172,059
Medical aid contributions	42,217,987	40,410,121
UIF	6,610,236	6,005,373
Leave pay contribution	20,868,042	25,319,589
Pension fund contribution	112,547,443	110,355,566
Overtime payments	62,098,630	50,915,706
Long-service awards	13,224,861	12,194,233
13th Cheque's	49,567,189	50,148,188
Car allowance	17,416,594	18,717,538
Housing benefits and allowances	3,508,636	3,770,310
Group life	5,248,707	5,333,247
Other allowances	37,138,769	31,023,598
	<b>980,891,329</b>	<b>956,365,528</b>
<b>Prior year errors - Other allowances</b>	49	
Previously reported	-	27,314,873
Scarce skills allowances to be paid in the 13/14 financial year iro the 11/12 financial year.	-	3,708,725
<b>Restated</b>		<b>- 31,023,598</b>
<b>Summary of prior period errors</b>	49	
Previously reported	-	952,656,803
Adjusted for Scarce skills	-	3,708,725
<b>Restated</b>		<b>- 956,365,528</b>
<b>Remuneration of Municipal Manager</b>		
Remuneration	1,055,584	803,225
Travel Allowance	90,000	-
Contributions to UIF, Medical and Pension Funds	29,306	-
Allowance	446,701	-
Other	-	535,483
	<b>1,621,591</b>	<b>1,338,708</b>
<b>Remuneration of Chief Financial Officer</b>		
Remuneration	313,222	702,740
Housing subsidy	1,478	-
Travel Allowance	65,589	-
Allowance	14,584	-
UIF	595	-
Medical aid	11,381	-
Pension contributions	39,669	-
Group life	3,924	-
Other	-	468,493
	<b>450,442</b>	<b>1,171,233</b>

The CFO position was filled in March 2013. Remuneration based on the position being filled for the full period equates to R1 351 352. Acting allowance to the value of R 155 012 was paid in the 2012/13 financial year in respect of the vacant CFO position.

### Remuneration of Director Executive Support Services

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>34. Employee related costs (continued)</b>		
Remuneration	-	527,055
Travel allowance	-	144,000
Allowance	-	78,681
UIF	-	1,123
Medical aid	-	14,922
Pension contributions	-	102,776
Group life	-	9,869
	-	<b>878,426</b>

The position was vacant for 2012/13. Remuneration based on the position being filled for the full period equates to R1 237 994. Acting allowance to the value of R 225 243 was paid in the 2012/13 financial year in respect of the vacant Director Executive Support Services position.

### Remuneration of Chief Operations Officer

Remuneration	-	292,808
Travel allowance	-	80,000
Allowance	-	35,599
UIF	-	624
Medical aid	-	16,403
Pension contributions	-	57,098
Group life	-	5,483
	-	<b>488,015</b>

The position was vacant for 2012/13. Remuneration based on the position being filled for the full period equates to R1 237 994. Acting allowance to the value of R 176 010 was paid in the 2012/13 financial year in respect of the vacant COO position.

### Remuneration of Director Corporate Services

Remuneration	61,900	702,740
Housing subsidy	3,000	36,000
Travel allowance	15,000	180,000
Allowance	9,679	97,906
UIF	125	1,497
Medical aid	1,392	16,056
Pension contributions	12,070	137,034
	<b>103,166</b>	<b>1,171,233</b>

The Director of Corporate Services resigned on the 31 July 2012 and the position remained vacant for the remainder of the financial year. Remuneration based on the position being filled for the full period equates to R1 237 994. Acting allowance to the value of R 154 770 was paid in the 2012/13 financial year in respect of the vacant Director Corporate Services position.

### Remuneration of Director Health and Public Safety

Remuneration	495,198	702,740
Allowance	232,426	329,962
UIF	1,142	1,497
Pension contributions	96,564	137,034
	<b>825,330</b>	<b>1,171,233</b>

The contract for the Director of Health and Public Safety expired on 28 February 2013. He was appointed as Special Advisor to the Executive Mayor with effect from 01 June 2013. The payment for the period March to May 2013 is reflected under note 55: Irregular expenditure. Remuneration based on the position being filled for the full period equates to R1 237 994.

### Remuneration of Director Engineering Services

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>34. Employee related costs (continued)</b>		
Remuneration	742,796	702,740
Travel allowance	168,000	168,000
Allowance	157,225	140,220
UIF	1,713	1,497
Medical aid	13,565	12,424
Pension contributions	144,845	137,034
Group life	9,849	9,318
	<b>1,237,993</b>	<b>1,171,233</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 34. Employee related costs (continued)

#### Remuneration of Director Development and Planning

Remuneration	742,796	702,740
Travel allowance	192,000	192,000
Allowance	121,232	105,115
UIF	1,713	1,497
Medical aid	21,499	19,688
Pension contributions	144,845	137,034
Group life	13,908	13,158
	<b>1,237,993</b>	<b>1,171,232</b>

#### Remuneration of Director Community Services

Remuneration	742,796	702,740
Travel allowance	120,000	120,000
Allowance	214,731	196,803
UIF	1,713	1,497
Pension contributions	144,845	137,034
Group life	13,908	13,158
	<b>1,237,993</b>	<b>1,171,232</b>

### 35. Remuneration of Councillors

Executive Mayor	640,892	607,480
Deputy Mayor	42,726	485,984
Speaker	512,714	485,984
Chief Whip	480,668	455,610
Mayoral Committee Members (Allowance = R480 668: 9 Councillors)	4,253,657	4,100,490
Traditional leaders	356,325	-
Councillors (Allowance = R 224 312: 87 Councillors)	20,282,120	24,842,828
Councillors pension contribution	2,626,833	1,767,177
Councillors housing subsidy	2,690,095	2,261,594
Councillors medical aid	1,031,476	795,151
Travel allowance	10,413,804	7,075,811
UIF	-	87,557
	<b>43,331,310</b>	<b>42,965,666</b>

#### In-kind benefits

The Executive Mayor, Deputy Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. Cost of secretarial support amounts to R2 710 857 (2012: R 2 486 553 ).

The Executive Mayor and Deputy Mayor each have the use of a Council owned vehicle for official duties. Operating costs of the vehicles amounts to R192 985 (2012: R 333 666). An amount of R396 833 (2012: R 304 444) was incurred for hired vehicles.

The Executive Mayor and Deputy Mayor each have full-time bodyguards and an official driver. Cost of the bodyguards and the drivers amounts to R1 664 084 (2012: R1 427 729 ).

These benefits are governed by MFMA circular 58 dated 14 December 2011 and the Government Gazette 35962 dated 07 December 2012. Certain benefits that were prohibited by MFMA circular 58 dated 14 December 2011 have been regularised by Government Gazette 35962 dated 07 December 2012. These benefits includes the provision of electronic devices and official accommodation and furniture for the Executive Mayor. House keeping costs in the amount of R32 869 are also included.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand		2013	2012 Restated
<b>36. Debt impairment</b>			
Contributions to debt impairment allowance account		106,769,757	58,206,738
<b>37. Interest received</b>			
<b>Interest revenue</b>			
Unlisted financial assets		75,756,373	51,472,891
Bank		8,183,377	7,216,104
Interest charged on trade and other receivables		22,196,338	23,911,632
Interest on sporting body loans		7,756	8,252
		<b>106,143,844</b>	<b>82,608,879</b>
<b>38. Fair value adjustments and discounting of receivables and payables</b>			
In terms of GRAP 104 Paragraph AG 87 the initial period granted for short-term payables and receivables is 30 days. As the normal municipal receivables and payables terms are within 30 days and is consistent with established practice and legislation, no discounting needs to be performed.			
<b>39. Depreciation and amortisation</b>			
Property, plant and equipment	15	696,162,153	671,209,979
Intangible assets - amortisation	12	3,184,946	4,477,178
		<b>699,347,099</b>	<b>675,687,157</b>
<b>Prior period errors</b>	49		
Previously reported		-	513,009,118
Adjustment		-	162,678,039
<b>Restated</b>		-	<b>675,687,157</b>
<b>40. Finance costs</b>			
Non-current borrowings		67,258,510	70,491,430
<b>41. Auditor General remuneration</b>			
Expenses		9,219,239	7,328,872
<b>42. Contracted services</b>			
Other Contractors		7,763,365	6,839,654

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand		2013	2012 Restated
<b>43. Grants and subsidies paid</b>			
<b>Grants-in-Aid</b>			
Grants And Subsidies		2,016,324	-
Subsidies-Churches,sport and other welfare org.		1,636,935	-
Buffalo City Development Agency		468,181	1,363,650
Mayoral Social Responsibility		400,047	420,901
Publicity Association Grant		3,763,505	1,115,717
Sponsored Sporting Events		13,127,110	12,036,803
Poor relief		94,920,244	98,646,964
		<b>116,332,346</b>	<b>113,584,035</b>
<b>Amendment to grants and subsidies previously disclosed</b>			
Grants-in-Aid previously reported		-	14,937,071
Poor relief previously disclosed under general expenses		-	98,646,964
<b>Amended total</b>		<b>-</b>	<b>113,584,035</b>
<b>44. Bulk purchases</b>			
Electricity		900,088,648	787,947,122
Water		140,024,695	127,440,041
		<b>1,040,113,343</b>	<b>915,387,163</b>
<b>45. Net cash flows from operating activities</b>			
Surplus		482,714,597	(49,044,914)
<b>Non-cash movements</b>			
Depreciation and amortisation	39	699,347,099	675,687,157
Loss on the sale of property, plant and equipment	15	8,166,366	7,546,528
Share of deficit of associate	17	-	12,087,832
Fair value adjustment on Investment Property revalued	13	12,106,576	12,514,554
Impairment deficit	15	71,393	1,798,575
Debt impairment	36	106,769,757	58,206,738
Movement in operating leases	10	(2,605,046)	(1,582,011)
Movement in post retirement medical aid benefit obligation	24	136,794	60,662,209
Movement in provisions relating to landfill sites	21	(11,464,485)	25,496,118
Revaluation realisation	25	(17,914,402)	(2,294,320)
Adjustment of prior year transactions	15	-	(53,876,651)
Adjustment of prior year transactions	32	-	(20,298,448)
Adjustment of prior year transactions	34	-	3,708,724
Adjustment of prior year transactions	64	-	8,708,272
Revaluation of property, plant and equipment	15	-	67,929
Non-cash property, plant and equipment adjustments	15	215,923	-
Non-cash property, plant and equipment additions	15	(7,829,586)	(26,245,909)
Non-cash property, plant and equipment transfers	15	11,464,486	-
Movement in inventory	6	45,462,930	20,303,946
Movement in receivables from non-exchange transactions	8	(65,919,211)	(62,258,787)
Movement in receivables from exchange transactions	7	(178,281,050)	(159,620,632)
Movement in payables from exchange transactions	22	119,721,585	82,162,057
Movement in VAT receivables	9	(31,070,914)	3,330,159
		<b>1,171,092,812</b>	<b>597,059,126</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 46. Commitments

#### Authorised capital expenditure

##### Approved and contracted for - Property, Plant and Equipment

▶ Community	167,425,695	32,930,069
▶ Infrastructure	807,740,428	227,001,502
▶ Other	196,737,090	121,217,979
	<b>1,171,903,213</b>	<b>381,149,550</b>

This committed expenditure relates to Infrastructure, Community and Other Property, Plant and Equipment.  
Above amounts exclude VAT.

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

- within one year	6,927,809	6,357,433
- in second to fifth year inclusive	17,157,685	24,085,494
	<b>24,085,494</b>	<b>30,442,927</b>

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of five years. No contingent rent is payable.

### 47. Contingencies

#### Contingent assets

A counterclaim of R27 140 802 has been instituted by Council against Dormell Properties trading as Allaince Communications for repayment of amounts paid to them relating to the forensic investigation on Dr Zitha's appointments.

The estimated amount of recoverable traffic fines for 2013 is R1 544 400 (2012: R1 495 800) at year end.

BCMM purchased property in the amount of R762 440 (2012: R762 440) from Roger Rodney Smith who has now instituted a claim against Council for the sale to be reversed. If successful, BCMM will be refunded the amount.

Summons in the amount of R492 050 (2012: R492 050) have been issued to parties to recover costs incurred relating to a forensic investigation undertaken in respect of services rendered for waste sites.

A claim of approximately R515 946 (2012: R50 000) has been instituted by Council against ASBF Marking, Imigudu Joint Venture and Others due to contractor disputes whereby the contractor defaulted from their obligations in terms of the contract.



# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 48. Related parties

Associate

Refer to note 17

Buffalo City Development Agency (BCDA) (a Section 21 company registration no 2004/016829/08):

The BCDA was incorporated on 18 June 2004 as a Municipal entity of BCMM. BCDA is 100% controlled by BCMM. BCMM Council resolved to report all Agency related pre-incorporation financial transactions for the first time at 30 June 2005.

BCMM relationship with BCDA: Subsidiary - Buffalo City Development Agency (SOC) Ltd.

The municipality issued grants of R410 685 (VAT exclusive) to the development agency during the current financial year (2012: R1 196 185 - VAT exclusive).

BCDA has paid no consumer accounts during the current and 2012 financial years.

There are no share based payments.

There are no post-employment benefits for key personnel.

All Councillors and Employees have disclosed their interest in related parties and no one has the ability to control or exercise significant influence over Council in making financial and operating decisions.

BCMM paid an amount of R 128,200 VAT inclusive in April 2013 in respect of grass mowing on behalf of East London IDZ.

BCDA was not operational in terms of its mandate since 1 January 2011.

For key management and Councillors remuneration refer to notes 34 and 35.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>49. Prior period adjustments</b>		
During the year the following adjustments were made to transactions whereby amounts were erroneously stated in previous financial periods:		
The correction of the error(s) results in adjustments as follows:		
<b>Accumulated Surpluses</b>		
Resort rental income erroneously disclosed as caravan deposits	22	1,203,931
IDZ rebate on rates overcharged 07/08, 08/09, 09/10, 10/11 financial years	8	(3,013,101)
IDZ overcharged on electricity 09/10 financial year	8	(1,400,484)
Scrap income for waste disposal sites overstated 09/10, 10/11 financial years	8	(902,070)
Reclaimed VAT for MIG grant not claimed for the 10/11 financial year	23	25,850,895
Electricity assets - carrying value overstated in prior year	15	- (34,429,802)
Land - Adjustments made due to the review,update and reclassification of immovable assets	15	- (2,313,722,613)
Buildings - Adjustments made due to the review,update and reclassification of immovable assets	15	- (844,950,428)
Work in progress - Adjustments made due to the review,update and reclassification of immovable assets	15	- (36,230,591)
Recreational facilities - Adjustments made due to the review,update and reclassification of immovable assets	15	- (32,841,173)
Roads - Adjustments made due to the review,update and reclassification of immovable assets	15	- 4,383,777
Water network - Adjustments made due to the review,update and reclassification of immovable assets	15	- (125,119,395)
Community buildings - Adjustments made due to the review,update and reclassification of immovable assets	15	- (30,311,285)
Revaluation reserve - Adjustments made due to the review,update and reclassification of immovable assets	25	- 942,683
Investment property - Adjustments made due to the review,update and reclassification of immovable assets	13	- 188,063,317
Heritage assets - Adjustments made due to the review,update and reclassification of immovable assets	14	- (3,420,756)
<b>Total changes to accumulated surpluses</b>		<b>(3,205,897,095)</b>
<b>Statement of Financial Position 2012</b>		
Adjustment to deposits erroneously disclosed - should be rental income	22	(2,435,729)
IDZ rebate on rates overcharged 07/08, 08/09, 09/10, 10/11 financial years	8	3,013,101
IDZ overcharged on electricity 09/10 financial year	8	1,400,484
Scrap income for waste disposal sites overstated 09/10, 10/11, 11/12 financial years	8	2,880,301
Reclaimed VAT for MIG grant not claimed for the 10/11 financial year	23	(48,127,574)
Scarce skills allowances to be paid in the 13/14 financial year iro the 11/12 financial year	22	3,708,724
Accumulated depreciation adjusted	15	(839,751)
Cash on hand/creditors adjusted	5&22	2,283,083
Bank account adjusted	5	(2,283,083)
Other properties (landfill sites) adjusted	15	14,129,184
Provisions (landfill sites) adjusted	21	(14,129,184)
<b>Total changes to the Statement of Financial Position 2012</b>		<b>(40,400,444)</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>49. Prior period adjustments (continued)</b>		
<b>Statement of Financial Performance 2012</b>		
Surplus for the year as per audited financial statements		123,094,646
Resort rental income erroneously disclosed as caravan deposits	28	1,231,798
Scrap income for waste disposal sites overstated 11/12 financial year	32	(1,978,231)
Reclaimed VAT for MIG and USD grants not claimed for the 11/12 financial year	32	22,276,679
Scarce skills allowances to be paid in the 13/14 financial year iro the 11/12 financial year	34	(3,708,724)
Repairs and maintenance - Adjustments made due to the review, update and reclassification of immovable assets	64	(8,708,272)
Depreciation - Adjustments made due to the review, update and reclassification of immovable assets	39	(162,678,039)
Fair value - Adjustments made due to the review, update and reclassification of immovable assets	13	(12,514,554)
Disposals - Adjustments made due to the review, update and reclassification of immovable assets	15	- (6,060,218)
<b>Net affect on surpluses for 2012</b>		<b>(172,139,561)</b>
<b>Restated surpluses for 2012</b>		<b>(49,044,915)</b>
<b>Summary: Adjustments affecting Net Assets</b>		
Changes to operating income and expenditure accounts in the 2011 and earlier years		(3,205,897,095)
Changes to the operating income and expenditure accounts in the 2012 year		(172,139,561)
<b>Total changes affecting Net Assets</b>		<b>(3,378,036,656)</b>
<b>Reconciliation of the restated balance of the accumulated surpluses as at 1 July 2012</b>		
Balance as per audited statements		11,290,886,670
Changes effecting net assets		(3,378,036,656)
<b>Balance as at 1 July 2012 as restated</b>		<b>7,912,850,014</b>
<b>Reconciliation of the restated balance of the accumulated surpluses as at 1 July 2011</b>		
Balance as per audited statements		11,180,532,264
Prior year adjustments		(3,205,897,095)
<b>Balance as at 1 July 2011 as restated</b>		<b>7,974,635,169</b>

## 50. Risk management

### Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide benefits for stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings, cash and cash equivalents and equity.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 50. Risk management (continued)

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

#### Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms (1/7/2012-31/1/2013 = 7.5%)	8.00 %	661,417,169	-	-	-	-
Cash in current banking institutions	4.50 %	144,394,796	-	-	-	-
Call investment deposits	4.67 %	1,697,297,653	-	-	-	-
Trade and other payables - extended credit terms	10.50 %	(422,559,849)	-	-	-	-
Long term borrowings	10.09 %	(49,970,261)	(104,603,263)	(150,700,458)	(201,409,489)	(445,767,676)

These amounts best represent maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements.

#### Sensitivity Analysis of Market Risk

Effect of a 1% change in the interest rate	Current interest rate	Value 30 June 2013	Discounted value at current rate	Discounted value at current rate (-1%)	Discounted value at current rate (+1%)
Trade and other receivables - normal credit terms (1/7/2012-31/1/2013 = 7.5%)	8.00 %	661,417,169	612,423,305	618,146,887	606,804,742
Trade and other payables	10.50 %	(397,080,511)	(359,348,879)	(362,630,604)	(356,126,019)
Cash in current banking institutions	4.50 %	144,394,796	138,176,838	139,511,880	136,867,105
Call investment deposits	4.67 %	1,697,297,653	1,621,570,319	1,637,211,974	1,606,224,712

The sensitivity analysis was based on the assumption that a 1% increase or decrease in the interest rate could occur. The method used to prepare the sensitivity analysis was based on the discounted value of the respective cash flow for 1 year using the respective current interest rate in order to determine the effect of applicable market risk of a 1% increase or decrease in the interest rate.

#### Credit risk

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

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### 50. Risk management (continued)

Credit risk consists mainly of cash deposits (refer note 5 ) and trade debtors (refer notes 7&8). The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

### 51. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 52. Events after the reporting date

At the time of preparing and submitting the Annual Financial Statements there were no subsequent events to disclose.

### 53. Unauthorised expenditure

Unauthorised expenditure for the year	-	-
Approved by Council or condoned	-	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	14,478,000	-
<b>Closing balance</b>	<b>14,478,000</b>	<b>-</b>
<b>Prior period error</b>		
Previously reported	-	8,116,451
Adjusted	-	(8,116,451)
<b>Restated</b>	<b>-</b>	<b>-</b>

The asset register is currently being revised for certain infrastructure asset categories which has led to an increase in the cost of these assets and the resulting depreciation on them, which was not budgeted for. This is also due to a large amount of infrastructure projects that were still under construction (WIP) when the budgeted figures were calculated. This resulted in depreciation on roads and certain municipal properties being charged when these assets were capitalised which was not budgeted for.

No disciplinary steps were taken to date of reporting and there is no indication that these costs are recoverable.

The comparative figure for the previous year in the amount of R8 116 451 was reversed due to this amount being deemed by BCMM to not be unauthorised expenditure.

### 54. Fruitless and wasteful expenditure

Opening balance	3,721,269	2,729,196
Acts of negligence, damage to municipal properties and theft of goods.	421,177	828,514
Payment made iro yearly bus licences.	119,880	-
Interest charged on overdue accounts due to late payment and sheriff fees.	-	103,004
Payments made in respect of Council Litigations.	393,253	60,555
	<b>4,655,579</b>	<b>3,721,269</b>

Staff members involved in acts of negligence, damage to vehicles, theft of goods and overpayment of overtime, resulted in the municipality incurring losses totalling R421 177 (2012: R 828 514). No disciplinary action has been taken to date of reporting and there is no indication that these costs are recoverable.

Payments made in respect of Council Litigations amounted to R393 253 (2012: R60 555).

Payment made iro yearly bus licences in terms of the National Road Traffic Act of 1996 to the amount of R119 880. The busses are not in use due to litigation.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

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### 54. Fruitless and wasteful expenditure (continued)

BCMM has established a Municipal Public Accounts Committee (MPAC) which is constituted by Council to investigate all irregular, fruitless and wasteful expenditure. The MPAC recommends to Council the condonement and future actions to be taken in regards to irregular, fruitless and wasteful expenditure.

### 55. Irregular expenditure

Opening balance	663,835,980	227,141,742
Irregular Expenditure - current year	117,127,620	436,694,238
	<b>780,963,600</b>	<b>663,835,980</b>

### Analysis of expenditure awaiting condonation per age classification

Current year	117,127,620	436,694,238
Prior years	663,835,980	227,141,742
	<b>780,963,600</b>	<b>663,835,980</b>

### Details of irregular expenditure

Procurement made outside SCM regulations	13,153,621	-
BCC contracts	17,308,350	67,623,247
Annual contracts	77,233,540	9,390,425
Expired contracts	89,370	186,920,051
Expired leases on machinery and other expired leases	1,958,187	2,400,297
Expired leases on hygiene products	261,265	1,972,725
Irregular expenditure made on 3 quotation system	4,705,137	103,585,743
Completeness of SCM documentation	1,571,468	-
Payment iro employment contract - Section 57 employee	271,490	-
Stock purchases	-	177,354
Payments iro Councillors	-	15,175,427
ED contracts	-	48,852,489
Informal tenders	-	596,480
Non-approved deviations by Council - MFMA Regulation 36 on SCM	575,192	-
	<b>117,127,620</b>	<b>436,694,238</b>

BCMM has established a Municipal Public Accounts Committee (MPAC) which is constituted by Council to investigate all irregular, fruitless and wasteful expenditure. The MPAC recommends to Council the condonement and future actions to be taken in regards to irregular, fruitless and wasteful expenditure.

Amounts condoned by Council at the Council meeting on 31 July 2013 were R75 786 430 and R143 410 018 in respect of 2011 and 2012 respectively.

### Details of irregular expenditure recoverable

Tender award - Irregularities - Neo Solutions	2,278,189
Tender award - Irregularities - Waste Rite	20,231,888
	<b>22,510,077</b>

### 56. In-kind donations and assistance

FELZOO donated assistance to BCMM	23,800	193,378
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# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

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### 57. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year subscription / fee	9,800,000	9,500,000
Amount paid - current year	(9,800,000)	(9,500,000)
	-	-

#### Contributions to SA Cities Network

Current year subscription / fee	321,539	292,308
Amount paid - current year	(321,539)	(292,308)
	-	-

#### Audit fees

Current year fee	9,219,239	7,328,872
Amount paid - current year	(9,219,239)	(7,328,872)
	-	-

#### PAYE, UIF and Skills

Current year subscription / fee	131,332,923	125,865,881
Amount paid - current year	(131,332,923)	(125,865,881)
	-	-

Amounts in respect of June 2012 were paid by 07 July 2012 as per legislation, therefor there were no outstanding amounts for the financial year 2012/2013.

#### Pension and Medical Aid Deductions

Current year subscription / fee	230,482,775	221,671,814
Amount paid - current year	(230,482,775)	(221,671,814)
	-	-

Amounts in respect of June 2012 were paid by 07 July 2012 as per legislation, therefor there were no outstanding amounts for the financial year 2012/2013.

#### VAT

VAT receivable	65,200,497	34,129,583
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VAT output payables and VAT input receivables are shown in note 9 as net VAT receivable.

All VAT returns have been submitted by the due date throughout the year. VAT is only declared to SARS on receipt of payment from consumers.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

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### 57. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors and officials arrear consumer accounts

Arrear Councillors accounts totalling R8 515 were outstanding for more than 90 days at 30 June 2013 (2012: R2 912) for which mechanisms are in place to deduct amounts from the monthly allowances of each Councillor.

30 June 2013	Outstanding more than 90 days
Councillor R. Angelbeck - since 30 June 2013 amount paid	1,115
Councillor S. Gomba - since 30 June 2013 amount paid	3,644
Councillor N. Mekani - since 30 June 2013 amount paid	150
Councillor M. Nkula - since 30 June 2013 amount paid	1,447
Councillor G. Norexe - since 30 June 2013 amount paid	185
Councillor R. Thiele - since 30 June 2013 outstanding amount less than 90 days	1,974
30 June 2012	Outstanding more than 90 days
Councillor A.M. Matana	502
Councillor N.E. Maqidlana	652
Councillor R.N. May	530
Councillor N. Mekani	633
Councillor L.J. Mentoer	358
Councillor L. Quse	237

During the year officials accounts totalling R879 397 (2012: R461 723) were outstanding for more than 90 days.

#### Material losses

Electricity losses for the current year amounted to 9.54% i.e. R85 345 229 (2012: 12.61% i.e. R97 544 542). These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network, account for 5% i.e. R44 723 885 (2012: 6.5% i.e. R50 285 375). Non-technical losses, being theft, faults, billing errors etc., account for 4.54% R40 621 344 (2012: 6.11% i.e. R47 259 167). Attempts are currently being made to reduce these non-technical losses.

Non revenue water i.e. non billed water amounted to 45.67% i.e. R102 924 479 (2012: 47.28% i.e. R105 221 795 ). 41.06% i.e. R92 503 445 (2012: 37.56% i.e. R83 590 522) of these losses can be accounted for in terms of the National Guidelines for non-revenue water. 4.61% i.e. R10 421 034 (2012: 9.72% i.e. R21 631 273) of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

The above losses include rural areas and informal settlements.

### 58. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	45,368,396	-
Finance leases raised	5,004,171	749,790
Used to finance property, plant and equipment	(50,372,567)	(749,790)
	-	-

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.



# BUFFALO CITY METROPOLITAN MUNICIPALITY

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### 59. Deviation from supply chain management regulations

Regulation 36 of the MFMA on Supply Chain Management (SCM) Regulations and clause 36 of the SCM Policy of 2012 states that a SCM Policy must provide for the procurement of goods and services by way of a competitive bidding process.

Regulation 36 states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the annual financial statements.

During the financial year under review goods/services totaling R16 182 283 (2012: R21 666 617) were procured and the process followed in procuring those goods/services deviated from the provisions of the regulations as stated above. The accounting officer approved the deviations from the normal SCM regulations.

Nature of deviation	No of contracts	Value of contracts
Emergency	3	12,541,744
Sole supplier	1	80,000
Exceptional	4	3,560,539
	<b>8</b>	<b>16,182,283</b>

### 60. Retirement benefit information

The employees of the Council as well as the Council as employer, contribute to Municipal Pension, Retirement and various Provident Funds as listed below:

- Cape Joint Pension Fund
- Cape Retirement Fund
- Eastern Cape Local Authorities Provident Fund
- Government Employees Pension Fund
- SAMWU National Provident Fund
- SALA Pension Fund
- East London Municipal A Band Provident Fund
- Old Mutual Orion Provident Fund
- Aftredevoorsieningsfonds vir Kaapse Plaaslike Owerhede
- Municipal Employees Pension Fund
- Municipal Councillors Pension Fund

The Cape Joint Pension Fund's last actuarial valuation was at 30 June 2012 conducted by S. Neethling from Metropolitan Life Limited. The fund was 99.4% funded at valuation date. BCMM has both defined contributions (8) and defined benefit (29) members within this fund. The fund includes a number of municipalities and it is therefore not possible to identify each municipality's performance as the assets of the fund cannot be separately identified. Due to the low number of members it is envisaged that a surplus or deficit will not have a material effect on future contributions.

The Cape Retirement Fund's last actuarial valuation was at 30 June 2012 conducted by S. Neethling from Metropolitan Life Limited who certified that the fund was in a sound financial position.

The Eastern Cape Local Authorities Provident Fund's last valuation was at 30 June 2021 conducted by E. Du Toit from Alexander Forbes Financial Services who certified that the structure of the assets and the matching of the assets with the liabilities is adequate. The funding level was at 99.67% at valuation date.

The Government Employees Pension Fund's last valuation was at 31 March 2010 conducted by A. Nel. The funding level at this date was 100%.

SAMWU National Provident Fund's last actuarial valuation was at 30 June 2008 conducted by E. Potgieter from Fifth Quadrant Actuaries & Consultants (Pty) Ltd. The report stated that the fund was in a sound financial position.

The SALA Pension Fund's last valuation was at 30 June 2010 conducted by J.F. Rosslee of Genesis Actuarial Solutions. The fund was 96% funded as at valuation date. The valuator was satisfied with the investment policy of the fund and the nature of the assets is in his opinion, suitable for the nature of the liabilities of the fund at the date of valuation.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 60. Retirement benefit information (continued)

The Municipal Employees Pension Fund's last interim valuation was at 29 February 2009 prepared by Itakane Consultants and Actuaries (Pty) Ltd. The funding level at this date was 102.2%.

The Municipal Councillors Pension Fund's last interim valuation was at 28 February 2011 prepared by A. F. Botha from Jacques Malan Consultants and Actuaries. The report stated that the fund was in a sound financial position.

It is Council's policy to fund 60% of Pensioner's medical aid expenses. The current costs amount to approximately R 13.9 million.

An amount of R157 million (2012: R 151.9 million) was contributed by Council, Councillor's and employee's in respect of Councillor and employee retirement funding. These contributions have been expensed.

The East London Municipal A Band and Old Mutual Orion Provident Funds as well as the Aftredevoorsieningsfonds vir Kaapse Plaaslike Owerhede are fixed/defined contribution funds. It is therefore not necessary to perform actuarial valuations for these funds.

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>61. Contingent liabilities</b>		
<b>Litigation Issues</b>		
A claim has been instituted against Council by T.L. Rayi due to alleged defamation. Legal advice has been sought and Council will defend the claim.	100,000	100,000
Claims have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims.	2,617,040	1,162,631
A claim has been instituted against Council by Transnet due to outstanding rental since 1998 when the last lease between Transnet and BCMM expired (Date of incident March 1998 and summons received by BCMM November 2007). (Resolved)	-	4,092,956
A claim has been instituted against Council by Dalwick Trading in respect of alleged breach of contract. The contractor presented BCMM with a letter of appointment regarding a 2010 Legacy Project but there is no record within BCMM of the contractor tendering or being awarded the contract (Date of incident August 2008 and summons received by BCMM November 2010).	1,563,415	1,563,415
A claim has been instituted against Council by M.Sithole for damages suffered as a result of his appointment as Municipal Manager being rejected by Council (Date of incident August 2009 and summons received by BCMM June 2011).	1,382,118	1,382,118
A claim has been instituted against Council by RJW Ikusasa JV due to cancellation of a contract to lay a bulk sewer pipe due to non performance (Summons received by BCMM November 2007).	9,780,185	9,780,185
A claim has been instituted against Council by N.M. Rieger & Others in respect of monies allegedly due to them in terms of an agreement with Council (Date of incident June 2000 and summons received by BCMM July 2011). (Resolved)	-	2,872,579
A claim has been instituted against Council by Tshiki & Sons Inc seeking a court order to compel Council to pay fees allegedly due in respect of Conveyance work done on Council's behalf (Date of incident August 2011 and summons received by BCMM September 2011).	3,948,000	3,948,000
A claim has been instituted against Council by Tshiki & Sons Inc seeking a court order to compel Council to pay fees allegedly due in respect of Conveyancing work done on Council's behalf (Date of incident June 2010 and summons received by BCMM January 2012).	7,786,920	7,786,920
A claim has been instituted against Council by Nurcha Development & Tusk Construction for alleged breach of contract (Cession agreement signed by the Contractor New Boss CC) (Date of incident June 2011 and summons received by BCMM January 2012).	2,910,575	2,910,575
A claim has been instituted against Council by Mkwanazi Construction (Pty) Ltd claiming for damages arising from alleged delays and disruptions in the construction project (Date of incident October 2011 and summons received by BCMM April 2012).	36,861,290	36,861,290
A claim has been instituted against Council by Faye Heuer claiming for damages against Council due to an accident allegedly caused by potholes (Date of incident February 2009 and summons received by BCMM February 2012).	2,209,820	2,209,820
A claim has been instituted against Council by Claremont Farming as the plaintiff wants BCMM to take ownership of its farm after BCMM allegedly erected a water reservoir on the farm. (Resolved)	-	680,000
Contracts awarded during Dr.Zitha's tenure as acting Municipal Manager were investigated by forensic auditors. The forensic investigation has been completed and a final report has been submitted to Council. Council is to decide on the outcome of the report.	20,474,866	20,983,535
A claim has been instituted against Council by Reigerton Farms for Gonubie Main Road (Letter of demand received April 2013).	15,812,736	-
A claim has been instituted against Council by Evaluations Enhanced Property Appraisals (Pty) Ltd for an application to set aside an award made by BCMM to a competing tenderer under contract 2953 - General Valuation Project (Summons received November 2012).	29,642,513	-
A claim has been instituted against Council by Ranamane Mokalane Incorporated for professional fees owed for services rendered by them (Date of incident April and May 2010 and summons received March 2013).	2,724,871	-

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
<b>61. Contingent liabilities (continued)</b>		
<b>Total Contingent Liabilities in respect of Litigation Issues</b>	<b>137,814,349</b>	<b>96,334,024</b>
<b>Labour Issues</b>		
Directors bonuses	3,074,537	2,105,653
Employees who could have been incorrectly placed during the placement process in 2003 and other labour disputes have resulted in possible claims.	6,878,488	4,815,057
The unions have disputed the interpretation of the TASK Job Evaluation agreement and have indicated that the current salary scales being used should have increased by 8.48% with effect from 01/07/2010.	37,000,000	35,000,000
Employees who have appealed against TASK evaluation results may receive a higher TASK level and backpay if their TASK levels are upgraded through the appeal process. It is also possible that positions within the Municipality could be re-graded and employees could also in some cases be upgraded and receive backpay. 6.5% of the positions have not yet been graded and the financial implications of this are unquantifiable. The appeals arise from the evaluation of all posts in 2006.	10,000,000	10,000,000
The Senior Professional Nurses allege that their Occupational Specific Dispensation allowances have been incorrectly calculated and that they should be receiving higher amounts. The Occupational Specific Dispensation Allowances (OSDA) paid to primary health care employees will be recalculated according to information requested from Province and this will determine whether the amounts paid to employees need to be adjusted. The amount is therefore unquantifiable at this stage (This was for the period 2010 to June 2012 paid in August 2012). (Resolved)	-	4,800,000
Certain former R293 employees received a lesser total package when they were transferred to the Municipality in April 2000.	5,000,000	5,000,000
<b>Total Contingent Liabilities in respect of Labour Issues</b>	<b>61,953,025</b>	<b>61,720,710</b>
<b>Insurance Issues</b>		
Claims have been instituted against Council due to alleged assault, unlawful/wrongful arrest, defamation and various personal injury claims. Legal advice has been sought and Council will defend claims where so advised.	5,805,000	6,582,866
Claims have been instituted against Council due to various damage claims.	1,010,472	256,854
A claim has been instituted against Council by Mercedes-Benz SA in respect of a voltage fluctuation which allegedly fell outside the time periods and parameters as agreed upon in the electricity supply agreement between BCMM and MBSA resulting in damage to body shop machinery (Date of incident September 2009 and claim received by BCMM November 2009).	2,300,235	4,183,882
A claim has been instituted against Council by M. Ntswanhlana in respect of personal injury caused by a billboard (Date of incident August 2005 and claim received by BCMM September 2006). (Resolved)	-	1,880,000
A claim has been instituted against Council by M. Gwentsha, K. Poni, N. Magxwalisa, T. Nzuzo and D. Sam in respect of an alleged shooting incident (Date of incident January 2009 and claim received by BCMM March 2009).	2,500,000	2,500,000
A claim has been instituted against Council by T Beija and D.H.E. Beija in respect of personal injury and vehicle damages caused by a pothole (Date of incident July 2012 and claim received by BCMM December 2012).	7,001,518	-
<b>Total Contingent Liabilities in respect of Insurance issues</b>	<b>18,617,225</b>	<b>15,403,602</b>
<b>Other issues not yet under litigation</b>		
Claims have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims.	60,792	75,147
<b>Total Contingent Liabilities</b>	<b>218,445,391</b>	<b>173,533,483</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

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<b>62. Cash flows from operating activities</b>			
<b>Receipts: Sale of goods and services</b>			
Total revenue as per Statement of Financial Performance		4,443,512,283	3,612,666,791
Less: Fair value adjustments	13	(12,106,576)	(12,514,554)
Less: Interest received	37	(106,143,844)	(82,608,879)
Less: Public contributions and donations	28	-	(599,152)
Less: Government grants and subsidies received	28	(1,235,137,628)	(907,186,380)
Less: Public contributions- PPE	28	-	(730,105)
Gain/(Loss) on sale of assets	15	8,166,366	7,546,528
Movement from non-exchange transactions	8	(65,919,211)	(62,258,787)
Fair value adjustment on Investment Property revalued	13	12,106,576	12,514,554
Movement in receivables from exchange transactions	7	(178,281,050)	(159,620,632)
Movement in VAT receivables	9	(31,070,914)	3,330,159
Movement in operating lease receivable	10	(2,605,046)	(1,582,011)
<b>Net revenue from sale of goods and services as per the cash flow statement</b>		<b>2,832,520,956</b>	<b>2,408,957,532</b>
<b>Payment: Suppliers</b>			
Total expenditure as per the Statement of Financial Performance		(3,948,691,107)	(3,637,109,316)
Employee costs	34&35	1,024,222,639	999,331,194
Interest paid	40	67,258,510	70,491,430
Depreciation and amortisation	39	699,347,099	675,687,156
Reversal of impairments	15	71,393	1,798,575
Debt impairment	36	106,769,757	58,206,738
Non-cash property, plant and equipment transfers	15	11,464,486	-
Movement in post retirement medical aid benefit obligation	24	136,794	60,662,209
Movement in provisions relating to landfill sites	21	(11,464,485)	25,496,118
Ajustment of prior year transactions	15	-	(53,876,651)
Ajustment of prior year transactions	32	-	(20,298,448)
Ajustment of prior year transactions	34	-	3,708,724
Ajustment of prior year transactions	64	-	8,708,272
Revaluation of property plant and equipment	15	-	67,929
Movement in payables from exchange transaction	45	119,721,585	82,162,057
Non-cash asset additions-leases	15	(7,829,586)	(26,245,909)
Movement in inventory	45	45,462,930	20,303,946
Revaluation reserve realisation	25	(17,914,402)	(2,294,320)
Non-cash property, plant and equipment adjustments	15	215,923	-
<b>Net payments to suppliers as per cash flow statement</b>		<b>(1,911,228,464)</b>	<b>(1,733,200,296)</b>
<b>Government grants, subsidies and public contributions and donations</b>			
Government grants & subsidies	31	1,235,137,628	907,186,381
Public contributions and donations - operating	28	-	599,152
Public contributions and donations - PPE	28	-	730,105
<b>Total as per cash flow statement</b>		<b>1,235,137,628</b>	<b>908,515,638</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

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## Notes to the Annual Financial Statements

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<b>63. Surplus / (Deficit) for the year</b>		
<b>Reconciliation of actual operating results to net income/ (deficit)</b>		
Net income for the period	482,714,597	(49,044,910)
Offset depreciation	423,793,015	473,029,283
Items not provided for in the operating budget	3,940,210	(19,634,360)
Capital expenditure ex grant funding	(515,570,387)	(187,131,453)
<b>Actual operating results</b>	<b>394,877,435</b>	<b>217,218,560</b>
<b>Items not provided for in the operating budget</b>		
(Loss) on disposal of assets and liabilities	(8,166,366)	(7,546,528)
Fair value adjustment on Sanlam shares revalued	(12,106,576)	(12,514,554)
Share of deficit of associate accounted for under the equity method	-	(12,087,832)
<b>Other income and expenditure not budgeted for</b>	<b>3,940,210</b>	<b>(19,634,360)</b>
<p>When items of property, plant and equipment are financed from government grants these grants are recorded as revenue in the Statement of Financial Performance. (Revenue from non-exchange transactions). Depreciation expenses that will occur over the useful lives of Government funded items of property, plant and equipment will be offset by the accumulated revenue portion of the items of property, plant and equipment within accumulated surplus.</p> <p>Other income and expenditure as set out in the table above, are those items falling outside the scope of the operational revenue and expenditure but affects the surplus/(deficit) for the year.</p>		
<b>64. Repairs and maintenance</b>		
<b>Repairs and maintenance summary</b>		
Repairs and maintenance - Buildings	12,682,400	12,445,133
Repairs and maintenance - Vehicles	12,914,335	11,011,960
Repairs and maintenance - Equipment	6,047,438	6,204,702
Repairs and maintenance - Minor improvements	2,790,570	2,700,551
Repairs and maintenance - Office machines	4,241,485	4,069,482
Repairs and maintenance - Roads	35,859,297	22,048,981
Repairs and maintenance - Furniture	173,693	121,624
Repairs and maintenance - Electricity	13,866,930	12,691,835
Repairs and maintenance - Deferred maintenance	76,584,866	55,779,001
Repairs and maintenance - Sewerage	9,000,089	8,242,751
Repairs and maintenance - Water network	15,558,749	19,314,642
Repairs and maintenance - Mechanical repairs	1,792,541	1,656,041
Repairs and maintenance - Stormwater	6,758,996	5,064,405
Repairs and maintenance - Radio equipment	87,685	162,762
Repairs and maintenance - Maintenance contracts	50,569,944	43,249,967
Repairs and maintenance - Grounds	704,326	667,907
Repairs and maintenance - General	10,787,805	9,662,715
Repairs and maintenance - Extinguishers	88,591	127,658
Repairs and maintenance - Health and Public safety	330,211	1,051,305
Repairs and maintenance - Community services	2,861,738	3,018,962
<b>Total repairs and maintenance</b>	<b>263,701,689</b>	<b>219,292,384</b>
<b>Prior year errors</b>	49	
Balance previously stated		- 210,584,112
Adjusted		- 8,708,272
<b>Restated</b>		<b>- 219,292,384</b>

# BUFFALO CITY METROPOLITAN MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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### 65. Bids awarded to family of employees in service of BCMM

In terms of section 45 of the Municipal SCM regulation, any award above R 2 000 to family of employee in the service of the State must be disclosed in the annual financial statements. The following is a list as recorded in the declaration-of-interest form:

Connected person	Position held in State	2013	2012
N. Mtwebana	Admin clerk	2,890	-
V. Mayekiso	Ward committee	14,400	-
N. Ntho	Electrician intern	10,500	-
S. Gantana	L.R. Practitioner	7,720	-
Z. Garishe	Overseer: Coastal	29,000	-
<b>Total</b>	-	<b>64,510</b>	-